GLAECONOMICS

London's Economic Outlook: Spring 2008

The GLA's medium-term planning projections

Transport for London

LONDON DEVELOPMENT AGENCY

MAYOR OF LONDON

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GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics form a basis for the policy and investment decisions facing the Mayor of London and the GLA group. The unit is funded by the Greater London Authority, Transport for London and the London Development Agency.

Contents

1. Executive summary

GLA Economics' twelfth London forecast[i] suggests that:

- London's Gross Value Added (GVA) growth rate should slow to 1.3 per cent in 2008, rising to 1.8 per cent in 2009 and 2.2 per cent by 2010.

- London is likely to see small contractions in employment in 2008 and 2009, followed by slow growth in 2010.

- London household spending will probably grow more slowly than GVA in 2008 and 2009 and will match it in 2010. Household spending is forecast to grow more slowly than household income throughout the forecast period.

Table 1.1 summarises this report's forecasts and provides an average of independent forecasts.

Table 1.1: Summary of forecasts

Annual growth rates (per cent)	**2007**	**2008**	**2009**	**2010**
London GVA (constant 2003 £ billion)	4.2	1.3	1.8	2.2
Consensus (average of independent forecasts)		1.9	2.9	3.4
London civilian workforce jobs	1.2	-0.3	-0.1	0.1
Consensus (average of independent forecasts)		0.4	0.8	1.7
London household spending (constant 2003 £ billion)	3.6	0.6	1.1	2.2
Consensus (average of independent forecasts)		1.4	2.5	3.5
London household income (constant 2003 £ billion)	0.6	1.2	1.9	2.6
Memo: Projected UK RPIX[ii] (Inflation rate)	3.2	3.5	2.6	2.6
Projected UK CPI[iii] (Inflation rate)	2.3	2.7	2.2	2.2

Sources: GLA Economics' Spring 2008 forecast and consensus calculated by GLA Economics.

2. Introduction

The spring 2008 edition of *London's Economic Outlook* (LEO) is GLA Economics' twelfth London forecast. The forecasts are issued every six months to assist those preparing planning projections for London in the medium term. The report contains the following:

- An overview of recent economic conditions in London, the UK and the world economies with analysis of important events, trends and risks to short and medium-term growth (Section 3).
- The 'consensus forecast' – a review of independent forecasts indicating the range of views about London's economy and the possible upside and downside risk (Section 4). In this document, 'consensus forecast' refers to the average of the four independent forecasters listed under Section 2.1.
- The GLA Economics forecast for output, employment, household expenditure and household income in London (Section 5).
- An in-depth assessment of a topic of particular importance (Section 6). This issue features a supplement on the latest Annual Business Inquiry.

2.1 Note on the forecast

Any economic forecast is what the forecaster views as the economy's most likely future path and as such is inherently uncertain. Both model and data uncertainty as well as unpredictable events contribute to the potential for forecast error. GLA Economics' forecast is based on an in-house model built by Volterra Consulting Limited. GLA Economics' review of independent forecasts provides an overview of the range of alternative opinions. Independent forecasts are supplied to the GLA for the main macroeconomic variables by the following organisations:

- Cambridge Econometrics (CE)
- The Centre for Economic and Business Research (CEBR)
- Experian Business Strategies (EBS)
- Oxford Economics (OE)

Only the most likely outcomes, which the different forecasting organisations provide, are recorded. Each forecaster may also prepare scenarios they consider less likely but these are not shown here. The low and high forecasts combine the lowest and highest forecasts respectively taken from each year separately and which, may therefore, come from different forecasters. High and low estimates therefore may not represent the view of any one forecaster over the whole of the forecast period.

Economic forecasting is not a precise science. These projections provide an indication of what is most *likely* to happen, not what will *definitely* happen.

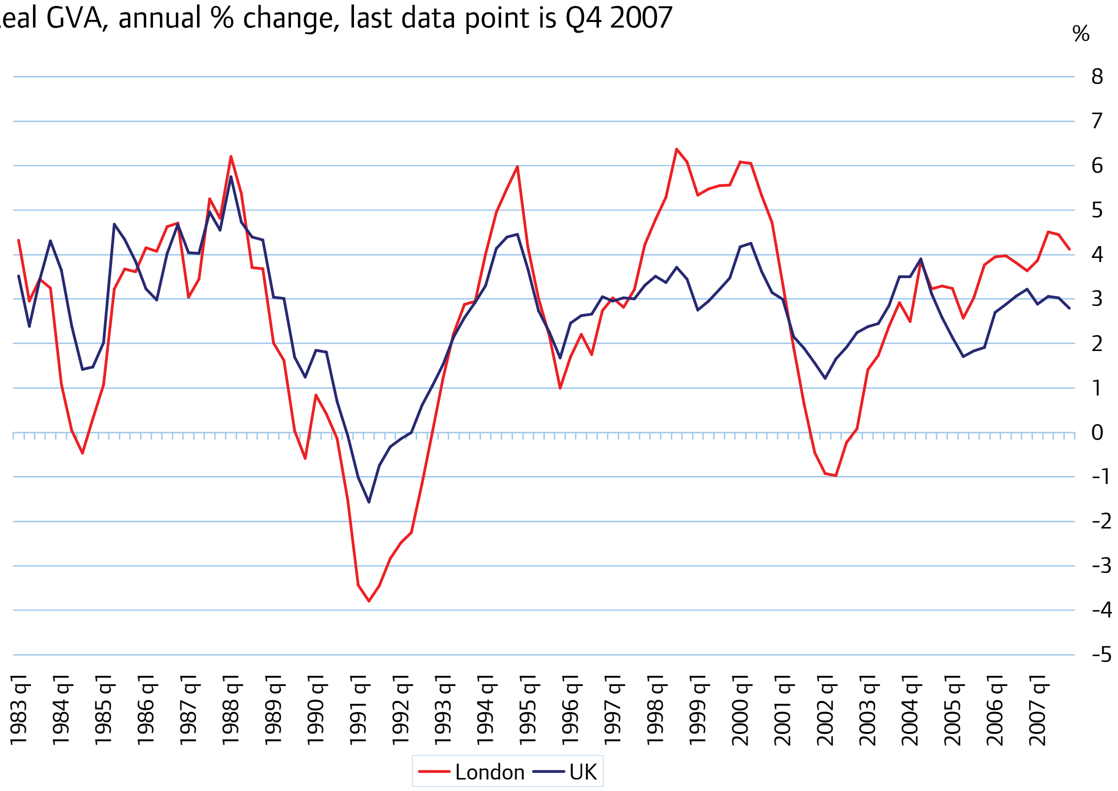
3. Economic background: Financial markets turmoil and the US close to recession

This section provides an overview of recent developments in the London, UK and world economies.

3.1 The London economy

During 2007 London's economic output continued its strong growth. Annual output in London grew at 4.1 per cent in quarter four of 2007, compared to 2.8 per cent in the UK. Annual economic growth has been positive in London since 2002 and stronger than the UK as a whole since the third quarter of 2004.

Figure 3.1: Output growth – London and UK
Real GVA, annual % change, last data point is Q4 2007

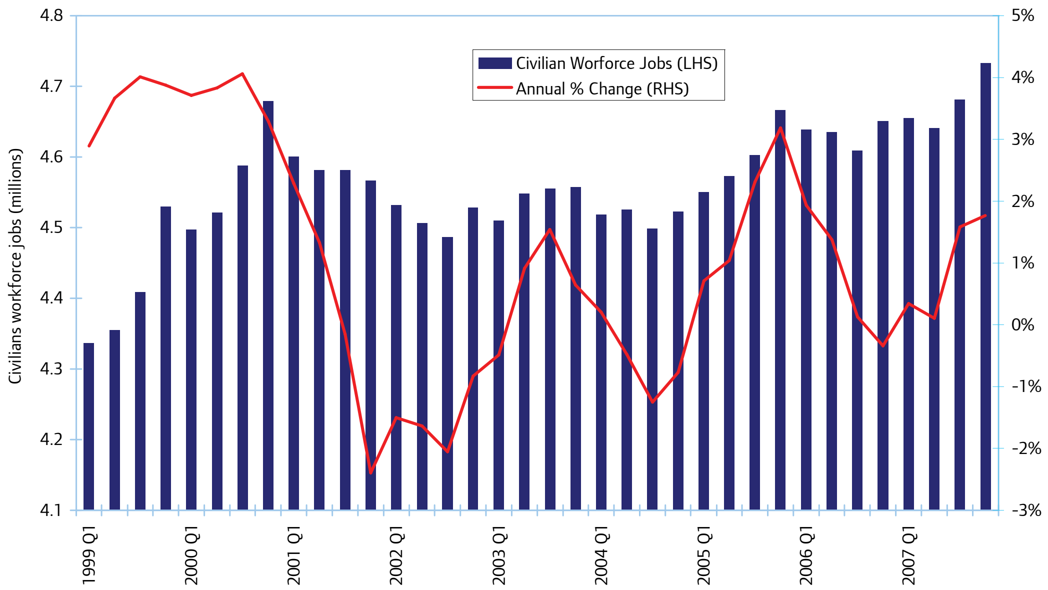


Source: Experian Business Strategies

Annual employment growth in London picked up during 2007. The total number of workforce jobs in London was over 4.7 million in quarter four of 2007 (see Figure 3.2).

Figure 3.2: London civilian workforce jobs

Level and annual % change, last data point is Q4 2007

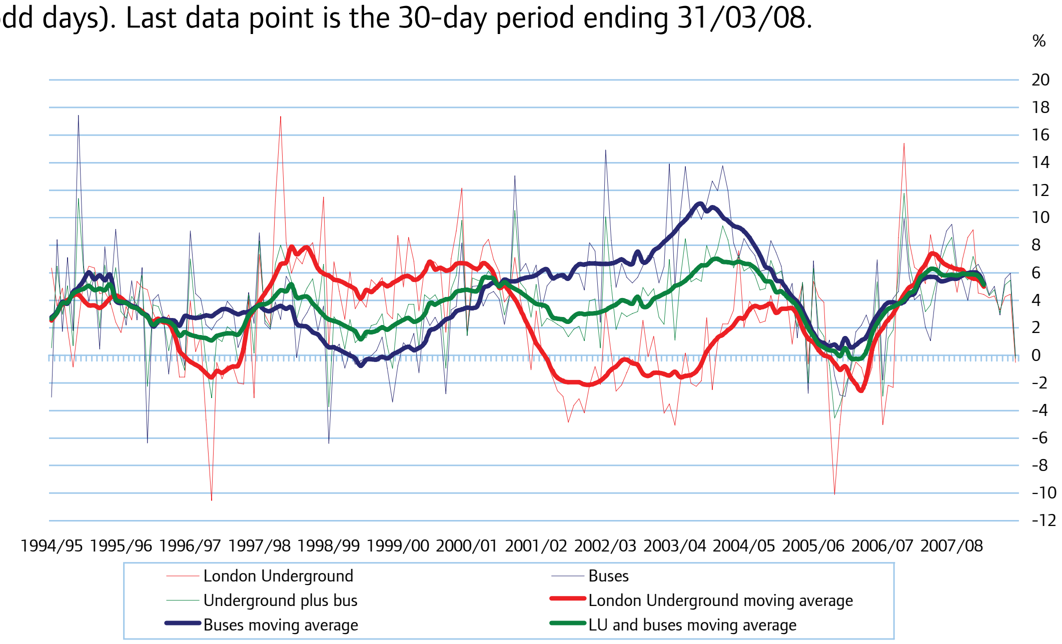


Source: Office for National Statistics

Public transport usage is a useful and timely indicator of economic activity in London. Figure 3.3 shows there was strong annual growth in both bus and underground usage during 2007 and at the beginning of this year.

Figure 3.3: London public transport usage

Annual % change in passengers using London Underground and buses (adjusted for odd days). Last data point is the 30-day period ending 31/03/08.

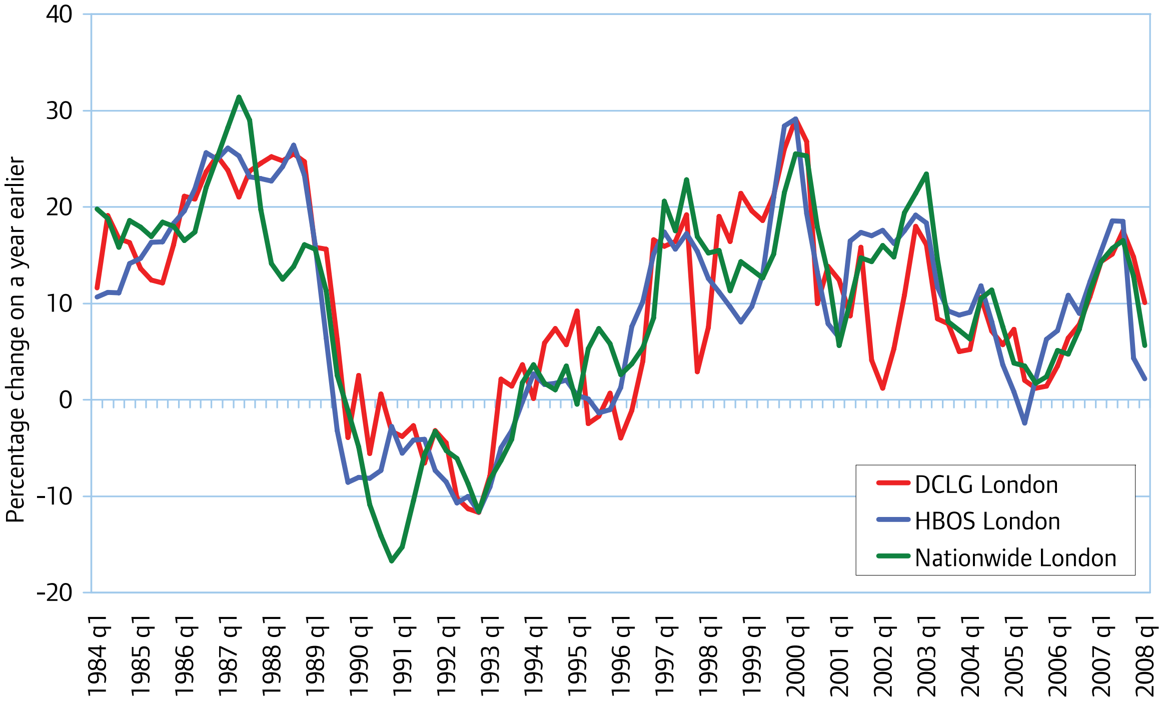


Source: Transport for London

Annual house price inflation in London fell at the end of 2007 and this has continued in 2008 (with the slowdown extremely sharp on the HBOS measure). This brings to an end a period of strong house price growth that began in the second half of 2005. City bonuses, which have supported London house prices, remained quite strong at the beginning of this year[iv], however the credit crunch and weakening economic prospects have subdued the market.

Figure 3.4: House price inflation in London

Last data point is Q1 2008

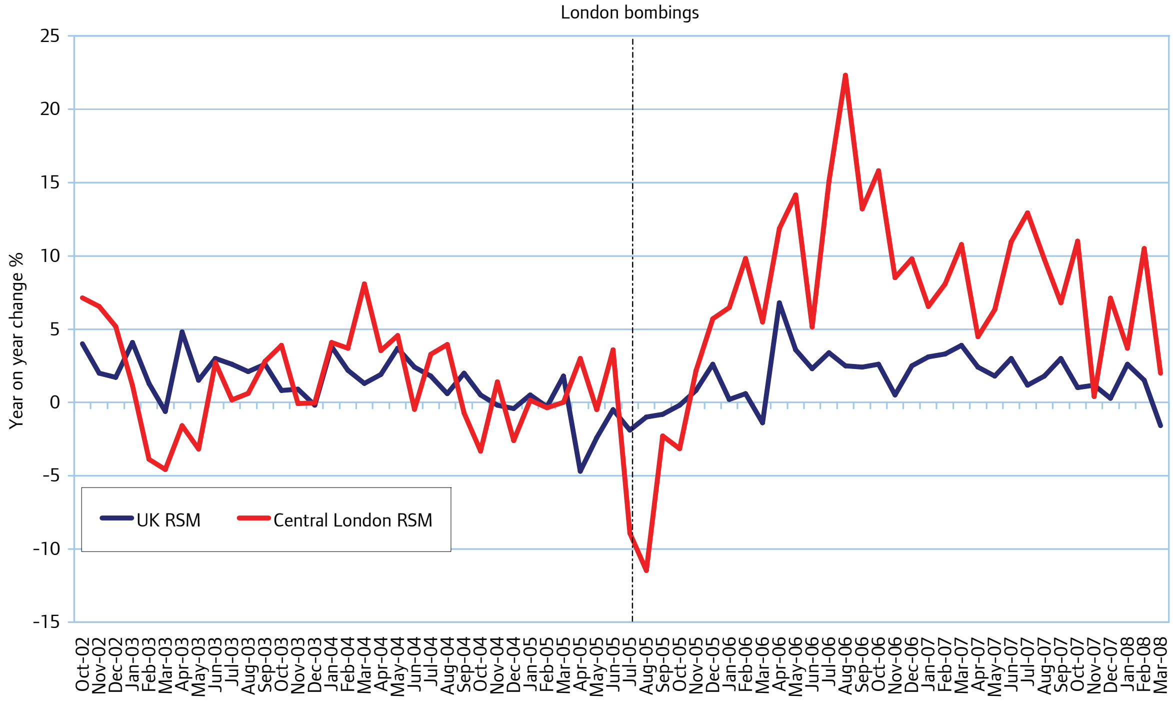


Sources: DCLG, Halifax Bank of Scotland, Nationwide

Similarly London's commercial property market slowed in the final quarter of 2007 with take-up 26 per cent below the ten-year average quarterly total[v]. This was due to a fall back in demand because of the continuing financial market turmoil although the media sector did increase demand in the West End.

The retail sector in Central London continued to perform well in early 2008 despite a more difficult economic background. Retail sales in Central London as monitored by the London Retail Consortium (see Figure 3.5) show strong year-on-year growth since December 2005, except for November 2007. However, there was also a weakening in March 2008 from a robust February, which may well be an indicator of things to come. Since November 2005 annual retail sales growth in the UK has remained below that of Central London apart from in November 2007.

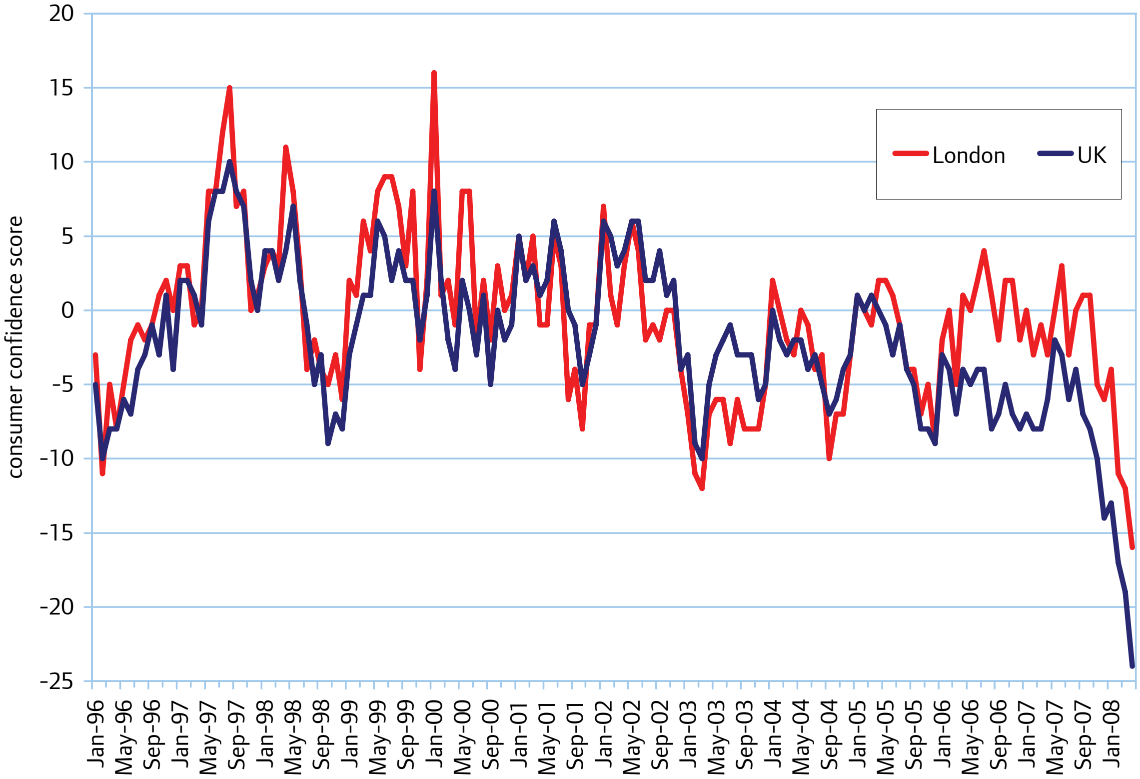
Figure 3.5: Retail sales growth – Central London and the UK
Annual % change, last data point is March 2008



Sources: UK Retail Sales Monitor – BRC/KPMG, Central London Retail Sales Monitor – London Retail Consortium

GfK NOP's regional consumer confidence index (see Figure 3.6) shows that consumer confidence remains higher in London than in the UK as a whole; however there has been a significant downturn in confidence in both London and the UK since summer 2007 that coincided with the onset of the credit crunch. Drops in consumer confidence since the end of 2007 shows that the prospects of a weakening economy are also impacting upon consumers' confidence. The index reflects people's views on their financial position and the general economic situation over the past year and their expectations for the next 12 months.

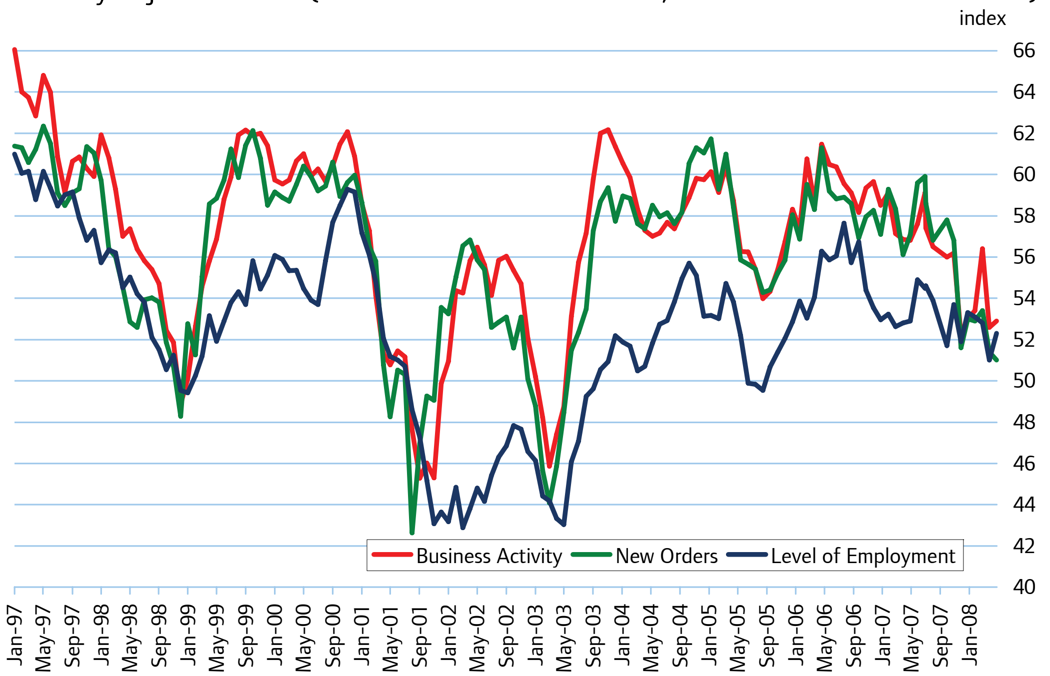
Figure 3.6: GfK NOP's regional consumer confidence index
Last data point is April 2008



Sources: GfK NOP on behalf of the European Commission, EcoWin

Business survey results indicate that the rate of London's expansion has slowed since the summer of 2007, but that growth is still positive. Figure 3.7 shows that PMI's surveys of seasonally adjusted business activity, new orders and the level of employment all remain above 50, which indicates growth.

Figure 3.7: Recent survey evidence on London's economic climate
Purchasing Manager's Index (PMI) survey, last data point is April 2008
Seasonally adjusted index (above 50 indicates increase, below 50 indicates decrease)



Sources: Royal Bank of Scotland/NTC Economics

3.2 The UK economy

UK Gross Domestic Product (GDP) rose by an estimated 0.4 per cent in the first quarter of 2008. The annual growth rate in the first quarter of 2008 slowed to 2.5 per cent from 2.8 per cent. Forecasters are predicting weaker UK growth in 2008 and 2009 than in 2007 as the economy slows due to the credit crunch and deteriorating international conditions.

Table 3.1: HM Treasury and consensus forecasts for the UK economy

	Average of Independent Forecasters		Budget March 2008	
	2008	**2009**	**2008**	**2009**
GDP growth (per cent)	1.8	1.8	1¾ - 2¼	2¼ - 2¾
Claimant unemployment (mn)	0.84	0.93	-	-
Current account (£bn)	-52.2	-46.9	-72½	-71
PSNB (2008-09, 2009-10: £bn)	43.5	44.1	43	38

Note: mn = million, bn = billion

Sources: HM Treasury Comparison of Independent Forecasts, May 2008.
HM Treasury Financial Statement and Budget report Chapter B: The Economy, and Chapter C: The Public Finances.

As can be seen in Table 3.2 annual growth in business services and finance was strong throughout 2007. However, it did start to weaken in Q4 2007 and this continued in Q1 2008. Further weakness in business services and finance is expected throughout the rest of 2008 and into 2009.

Table 3.2: Recent growth in broad industrial sectors of UK economy
Annual % change

	2007				2008
Industrial sectors	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Agriculture, forestry, and fishing	1.1%	0.7%	-0.8%	2.8%	2.3%
Mining & quarrying inc oil & gas extraction	-7.4%	-0.3%	-0.5%	1.8%	-5.1%
Manufacturing	0.8%	1.1%	0.2%	0.2%	1.2%
Electricity gas and water supply	-3.7%	-0.6%	0.1%	4.6%	1.7%
Construction	1.9%	2.8%	2.3%	2.5%	2.9%
Distribution hotels and catering	4.3%	4.0%	4.5%	3.0%	2.8%
Transport, storage and communication	5.3%	4.3%	3.8%	3.9%	3.2%
Business services and finance	4.7%	5.0%	5.2%	4.4%	3.9%
Government and other services	1.9%	1.7%	1.8%	2.1%	1.8%

Source: Office for National Statistics (as of end-April 2008)

Table 3.3 shows that annual growth in household spending and investment weakened in Q4 2007. Tougher credit conditions in 2008 will make the situation worse.

Table 3.3: UK domestic expenditure growth
Annual % change

	2006		2007			
Expenditure	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Households	1.8%	2.6%	3.5%	2.8%	3.5%	2.4%
Non-profit institutions	6.6%	6.2%	4.1%	4.2%	4.0%	4.1%
General Government	1.4%	1.4%	1.5%	2.3%	2.3%	1.3%
Gross fixed capital formation	8.1%	9.6%	9.3%	6.5%	5.1%	4.1%

Source: Office for National Statistics (as of end-April 2008)

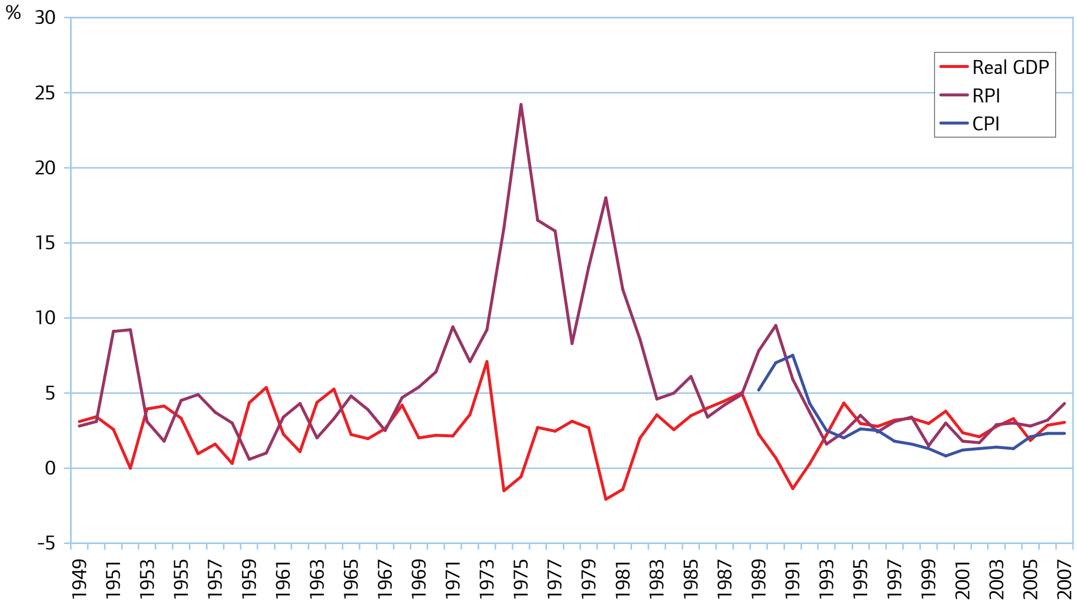
Annual consumer price index (CPI) inflation was 3.0 per cent in April 2008 a rise from a recent low of 1.8 per cent in September 2007. Higher commodity, food and utility prices have contributed to this rise in inflation. The Bank of England expects higher energy and food prices, due to robust demand from emerging economies and supply constraints, along with general higher import costs due to the weakening pound, to further increase inflationary pressures in the near term. Other upside risks to consumer inflation include any rise in inflation expectations especially if they feed into wage demands and the increasing cost of manufacturers goods which hit an eight year high in March 2008[vi].

Box 3.1: Recent UK economic stability under threat?

As seen from Figure 3.8 the UK has experienced a period of impressive economic growth combined with low inflation since the end of the last recession in 1992. This period of stability[vii] compares to the period 1970 to 1992 which saw a number of recessions and periods of high inflation. The strong and relatively stable output growth in the UK since 1992 also compares well with other G7 nations (see Figure 3.9).

Figure 3.8: UK annual inflation and output growth (1949-2007)

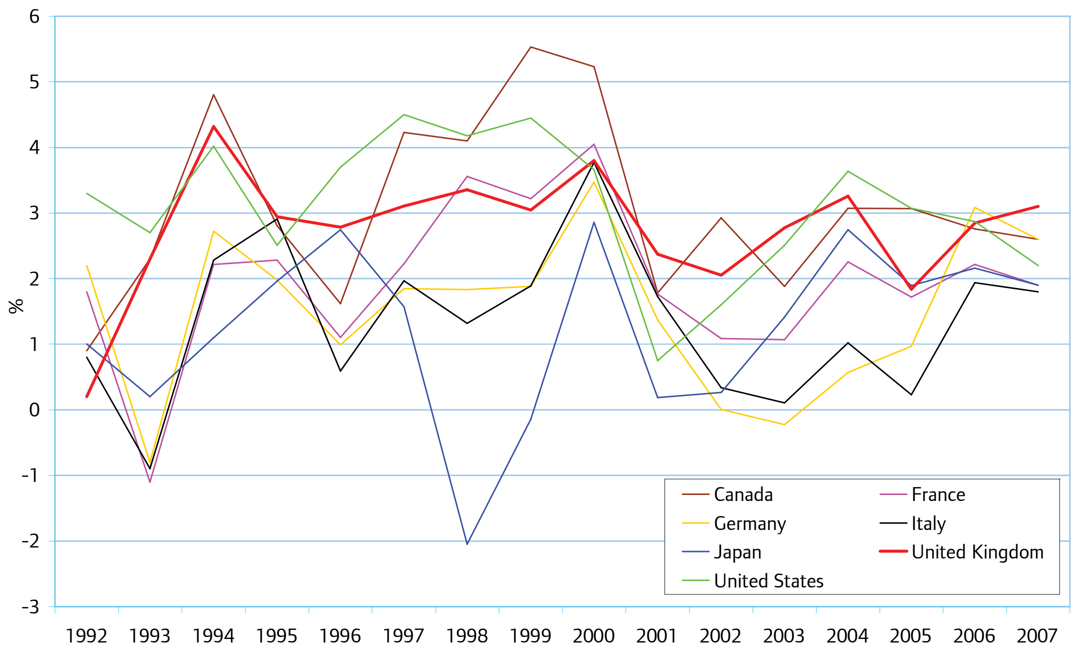
Real GDP and RPI & CPI inflation, annual % change, last data point is 2007



Source: Office for National Statistics

A striking facet of the relative output growth stability since 1992 is that it coincides with the period of inflation targeting introduced after the UK withdrew from the Exchange Rate Mechanism (ERM) in 1992. This has evolved from a range inflation target, to a point target, to most crucially Bank of England independence, to targeting CPI inflation rather than RPIX inflation. The coincidence of stable growth combined with inflation targeting has led many to wonder whether the moderation in output fluctuations has been down to monetary policy actions or whether it has been due to other factors such as globalisation or even luck. The first point to note is that UK output growth stability and inflation targeting has occurred in a benign international economic environment that has benefited from deflationary pressures from the integration of China, India, Russia and other economies into the global economy. Further, although Figure 3.9 shows that other G7 countries experienced more marked fluctuations in their GDP growth rates than the UK between 1992 and 2007 these fluctuations were also moderate in comparison to 1970-1992.

Figure 3.9: Annual output growth in the G7 economies (1992-2007)

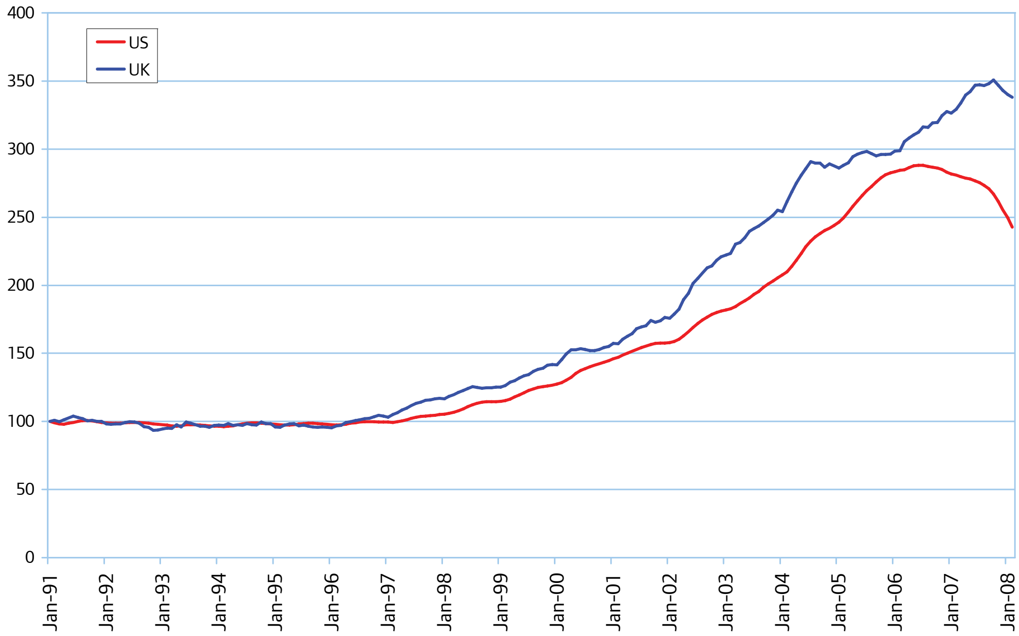


Source: OECD

Research on the subject has produced mixed results with some arguing that the "great moderation" was more likely a case of luck than due to monetary policy stability. Luca Benati at the ECB[viii] found that macroeconomic shocks rather than policy was a likely contributor to the recent stability in GDP growth in the UK. However, others argue that the moderation has been due either to structural changes in the developed economies or improved monetary policy. For instance, Andrew Gurney's research suggests the recent macroeconomic resilience was due to improved macroeconomic policy (including monetary policy) and less stringent labour and product market legislation[ix].

Of more concern now is whether the stability will continue? The Bank of England's May Inflation Report[x] would seem to indicate that this period of stable, positive growth and relatively low inflation is under threat, especially over the next two years. Looking at the recent structural instabilities of the US economy may give rise to some concerns for the prospects for the UK. There was a mis-pricing of risk in relation to sub-prime mortgages, and a housing price bubble arose. In relation to the UK the 1992-2007 period of economic stability has also seen an increase in the number of structural weaknesses in the UK economy. House prices have risen sharply in the UK when compared to the US (see Figure 3.10), and it has been noted that actual house prices in the UK may be as much as 30 per cent above the value implied by economic fundamentals[xi]. There has also been a large rise in household debt, which currently stands at 135 per cent of households' income[xii], with debt in the UK now being significantly higher than in other developed economies. Both these situations leave UK consumers, and therefore the economy, vulnerable to the shocks the economy now faces. However, it should be noted that there has also been a rise in household assets though if house prices fall during the next few years this will have a major negative impact on household assets. The period of UK economic stability during 1992-2007 may very well come to an end over the next couple of years.

Figure 3.10: Nominal house prices in the UK and US since January 1991
January 1991=100



Sources: S&P/Case-Shiller Home Price - Composite Home Price Index and Nationwide - Average House Price Index

UK official base interest rates have been cut three times since December 2007 to 5 per cent. However, these cuts have not been fully passed onto borrowers due to a wide spread between the London Inter-Bank Offered Rate (LIBOR) and the base rate (see Box 3.2).

Box 3.2: The ongoing credit crunch

The previous edition of London's Economic Outlook in October 2007 raised the issue of the credit crunch and the problem is still ongoing. Rachel Lomax, Deputy Governor at the Bank of England, describes the current situation as, "the largest ever peacetime liquidity crisis"[xiii]. The credit crunch followed problems in the US sub-prime mortgage market. Many banks throughout the world have had to write off billions of dollars, making them extremely cautious and unwilling to lend to each other, businesses and consumers. This has effectively dried up the liquidity in money markets.

The IMF in its Global Financial Stability report[xiv] reviewed the credit crunch and observed that there was "a failure to appreciate the extent of leverage taken on by a wide range of institutions". Private sector risk management and financial regulation was found to have lagged behind the financial and business model innovations, which left scope for "excessive risk-taking, weak underwriting, maturity mismatches, and asset price inflation".

Central banks have attempted to alleviate the situation by pumping liquidity into the money markets and also by reducing interest rates, aggressively in the case of the US Federal Reserve. However, the situation has not really improved since summer 2007. The UK has seen the first run on a private bank since the mid-nineteenth century. The Government, because of the lack of a suitable private sector solution, has now taken Northern Rock into public ownership. In March 2008, central banks announced another round of co-ordinated actions to provide more liquidity to financial markets. The central banks involved were the US Federal Reserve, the European Central Bank, Bank of England and the central banks of Canada and Switzerland.

March, also witnessed the demise of Bear Stearns, the fifth largest investment bank on Wall Street when it was taken over by JP Morgan with Federal Reserve support. Bear Stearns had been having problems borrowing money from other institutions because of fears about its solvency after accruing bad debts from investments connected to US sub-prime mortgages. Despite this rapid and decisive intervention by the US Federal Reserve, the demise of Bear Stearns caused global stock markets to initially fall drastically because of fears about the poor health of the world's banking system and concern that other financial institutions may also be on the brink of collapse. With financial markets continuing to remain nervous there is an increased risk of a deep and prolonged economic downturn. A report by Goldman Sachs, estimates that the credit crunch will globally cost $1.2 trillion (around 2 per cent of annual world output), with 40 per cent of these losses hitting US banks.

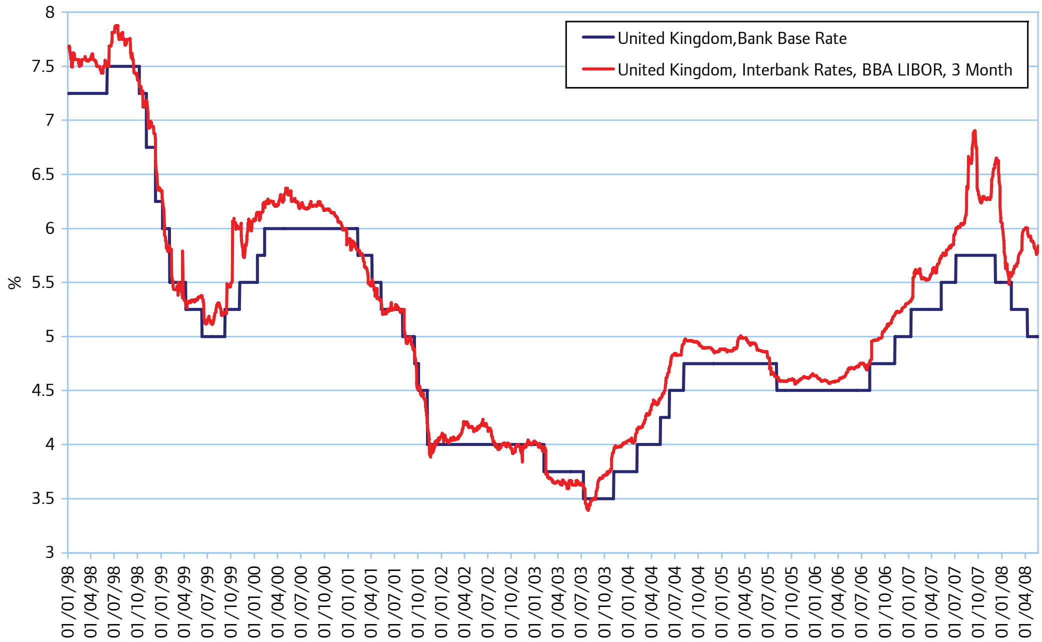
On 21 April the Bank of England announced a plan aimed at freeing up bank balance sheets and potentially enabling them to lend more to consumers and homebuyers. The scheme aims to improve liquidity in the banking system. Under the scheme, banks will be allowed to swap their "high quality" mortgage debts and credit card debts for Government securities. The swap will be for a period of one year and may be renewed for a total of three years. It will only apply to mortgage and credit card debts on banks' books at the end of 2007 and the swaps cannot be used to finance new lending. Usage of the scheme will depend on market conditions with initial use expected to be around £50bn. In May the ECB and Federal Reserve announced further measures to address persistent liquidity pressures raising the amount of cash available to banks in bi-weekly auctions to $25bn and $75bn respectively for an indefinite period. The Fed also agreed to extend an existing currency swap arrangement with the ECB and Swiss National Bank.

Re-pricing the risk on credit

The effect of the credit crunch has been for lenders to begin re-pricing credit risk and reducing the availability of credit to households and firms. The Bank of England's most recent credit conditions survey[xv] indicates that due to reduced risk appetite and problems raising funds in the wholesale money markets lenders have reduced the supply of secured and unsecured credit to households. Corporate credit availability has also been reduced and the spreads on secured lending increased. Lenders expect even worse credit conditions in the next quarter.

The UK base rate and three month LIBOR, the rate at which banks lend to each other, are normally closely correlated with each other. However, the credit crunch has caused the two rates to diverge since summer 2007 (see Figure 3.11). Despite intervention in the money markets by the Bank of England, the LIBOR rate has been relatively high. It peaked at around 6.9 per cent in September 2007 and remained above 6 per cent until the end of 2007. It fell to around 5.5 per cent in January but has since risen to around 6 per cent. At its high point, the LIBOR was over 100 basis points above the base rate. The recent decoupling of the base rate from market interest rates has also created problems to the transmission mechanism of monetary policy. This makes the Bank of England's job more difficult in setting the base rate.[xvi] Banks remain uncertain about the strength of other banks' balance sheets and are pricing in the additional risk of potential defaults. They are also hoarding liquidity for themselves.

Figure: 3.11: Bank of England's Repo rate and the 3 month London Inter-Bank Offered Rate (LIBOR)
Last data point is 21/05/08



Source: EcoWin

The impact on the property market

The credit crunch has had an adverse effect on the housing market. The reduction in the availability of mortgages, the increased cost of financing and the introduction of stricter lending criteria on mortgages have all led to a reduction in mortgage approvals. Annual house price inflation in the UK has fallen dramatically.

The Council of Mortgage Lenders says that so far there is no evidence that the increase in mortgage costs has led to an increase in defaults[xvii]. Just 1.1 per cent of all UK mortgages were 3 months behind with payments at the end of 2007. Repossessions remain at a third of the 1991 peak at 0.6 per cent of all mortgages. This compares with the US where almost 6 per cent of mortgages are over 30 days due, the highest since records began in the 1970s. However, as the full effects of the credit crunch feed through, defaults are expected to increase in the UK housing market.

The credit crunch has impacted on investment, development and occupational demand for property.

a) Investment
With a sharp reduction in investors in the housing market over the second half of 2007, investment transaction volumes slumped in the fourth quarter across the UK property market. From a peak of almost £18 billion of investment transactions in Q4 2006, activity fell to only £7.2 billion in Q4 2007. The contraction in investor demand was accompanied by a sharp fall in property investment values.

b) Development
The net effect of the credit crunch on development activity is likely to be that the initiation of new schemes in the short term will be substantially less than was envisaged 12 months ago.

c) Occupational
The credit crunch has weakened the outlook for office demand in London. The downside risk is that a downturn in financial services would generate a demand/supply imbalance sufficient to depress rental levels substantially. If investor perceptions of the occupational market outlook change significantly then that could trigger a further adjustment in investment pricing. A weaker occupational market would also further dampen new development activity.

How has the credit crunch affected the City of London?
Because of London's greater exposure to financial services the credit crunch has had a greater impact on London than other regions in the UK.

City bonuses in 2008 have held up due to a profitable first half of 2007 for banks. However, the credit crunch only materialised in the second half of 2007 and its full effect on the profitability of banks is now becoming more evident. This means that bonuses paid in 2009 could well fall steeply.

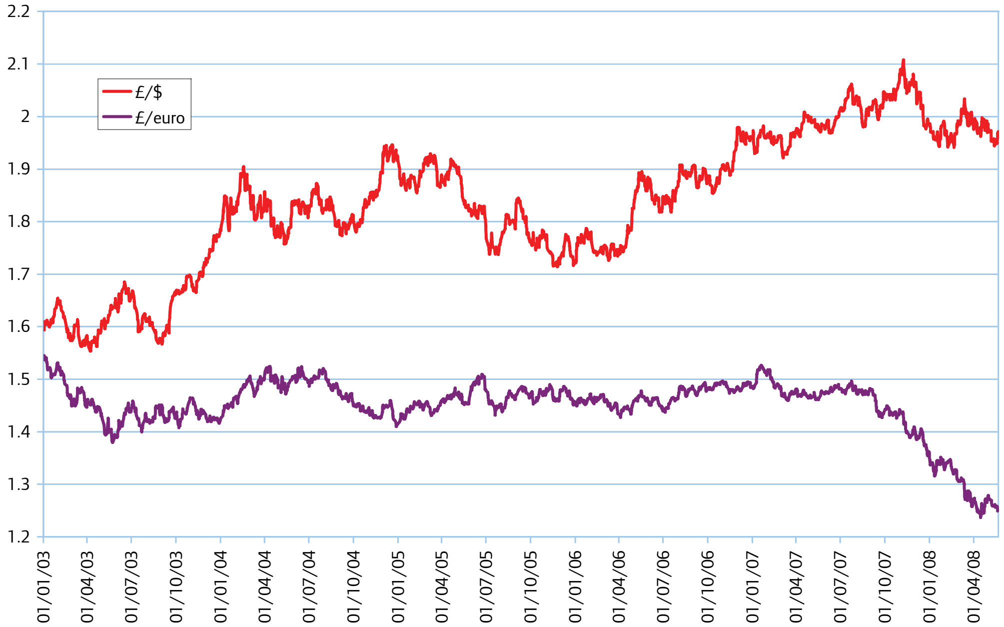
Banks remain cautious towards recruitment because of the ongoing credit crunch and volatility in markets, with vacancies 20 per cent lower than this time last year. Some companies are expected to recruit 15 per cent fewer graduates this year, whilst others are placing a total freeze on graduate recruitment altogether[xviii].

There are also signs of an economic slowdown coming from a drop in the take up of new office space in the City by banks and other financial companies. Andrew Marston, office research analyst at Atisreal, said: "There were no deals of over 20,000 sq ft to financial occupiers in the City for the second quarter in succession."[xix] A quarterly update by Jones Lang LaSalle, the property consultants showed that office take-up in the City fell by 40 per cent in the six months to March compared with the previous six months and the fall in the Docklands was 60 per cent. The City office market is facing the first downward pressure on rents since 2004.

Sterling has continued to be strong by recent historical standards against the dollar (see Figure 3.12) but has fallen significantly against other currencies. Against the euro, sterling hit record lows of around 1.25 euro per pound during April 2008. The recent weakness of the pound is illustrated by sterling's effective exchange rate index (EERI)[xx] (see Figure 3.13) that has declined by nearly 15 per cent since its most recent peak in January 2007.

Figure 3.12: £ to $ and £ to euro exchange rates

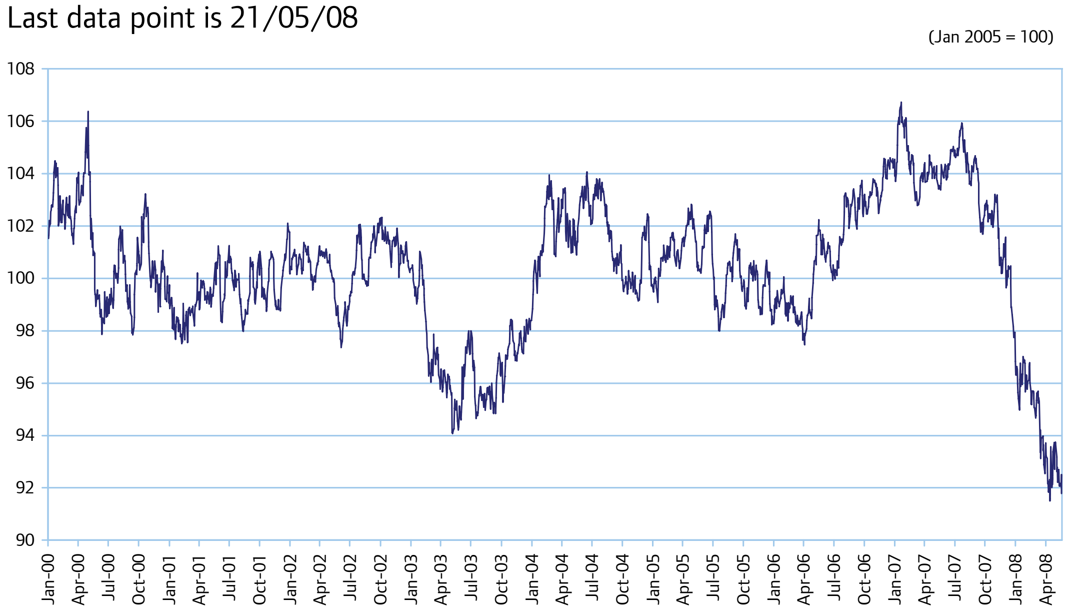
Last data point is 21/05/08



Source: EcoWin

Figure 3.13: Sterling EERI rate

Last data point is 21/05/08



Source: Bank of England

3.3 The world economy

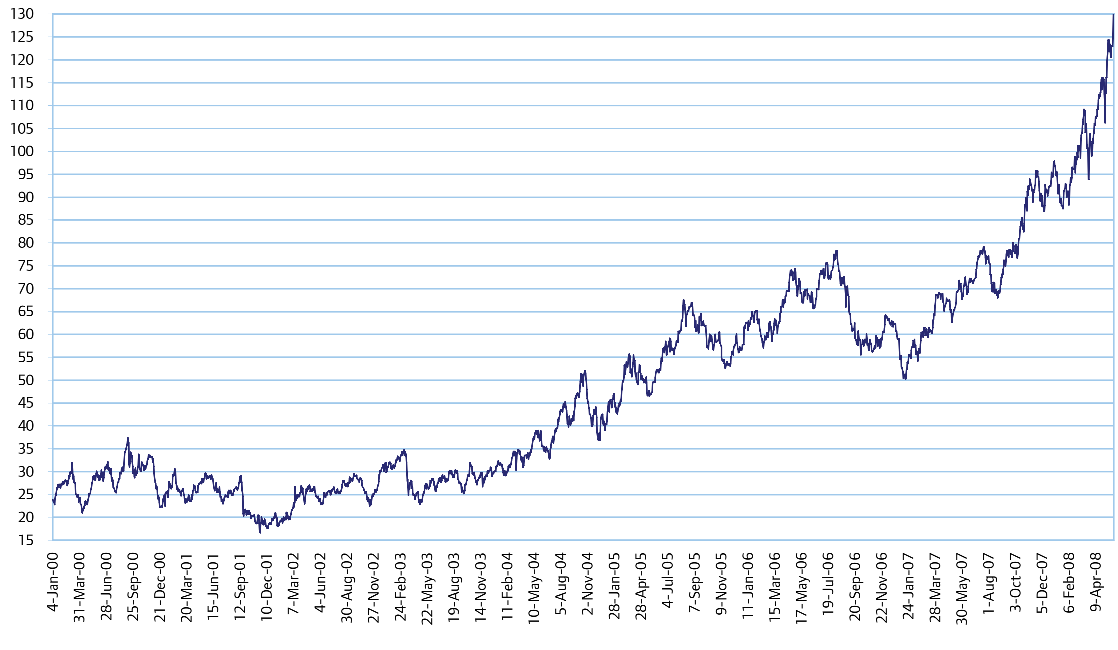
Due mainly to the weakening US economy and continuing world financial turbulence the IMF forecast in April that the world economy would grow by 3.7 per cent in 2008 down from 4.9 per cent in 2007.

Growth in the developed economies is forecast to slow markedly with the US forecast to grow at 0.5 per cent in 2008, down from 2.2 per cent in 2007, and the Eurozone is forecast to slow to 1.4 per cent growth in 2008 from 2.6 per cent in 2007. However, growth in emerging markets and developing economies is expected to only ease from 7.9 per cent in 2007 to 6.7 per cent in 2008 with China's growth projected to slow from 11.4 per cent in 2007 to 9.3 per cent[xxi] in 2008.

The IMF notes that the risks to global growth remain on the downside with the turmoil in the financial markets risking further demand downturns in the advanced economies and creating significant spillovers into the developing economies.

As shown in Figure 3.14, oil prices have generally been rising since 2002. During early 2008 they broke through $100 per barrel and in May hit record nominal highs. A weakening global economy will put downward pressure on oil prices but supply disruptions continue and Goldman Sachs have warned that there could be a super-spike past $200 per barrel in six months to two years time.

Figure 3.14: Brent crude oil price (US $ per barrel)
Last data point is 21/05/08



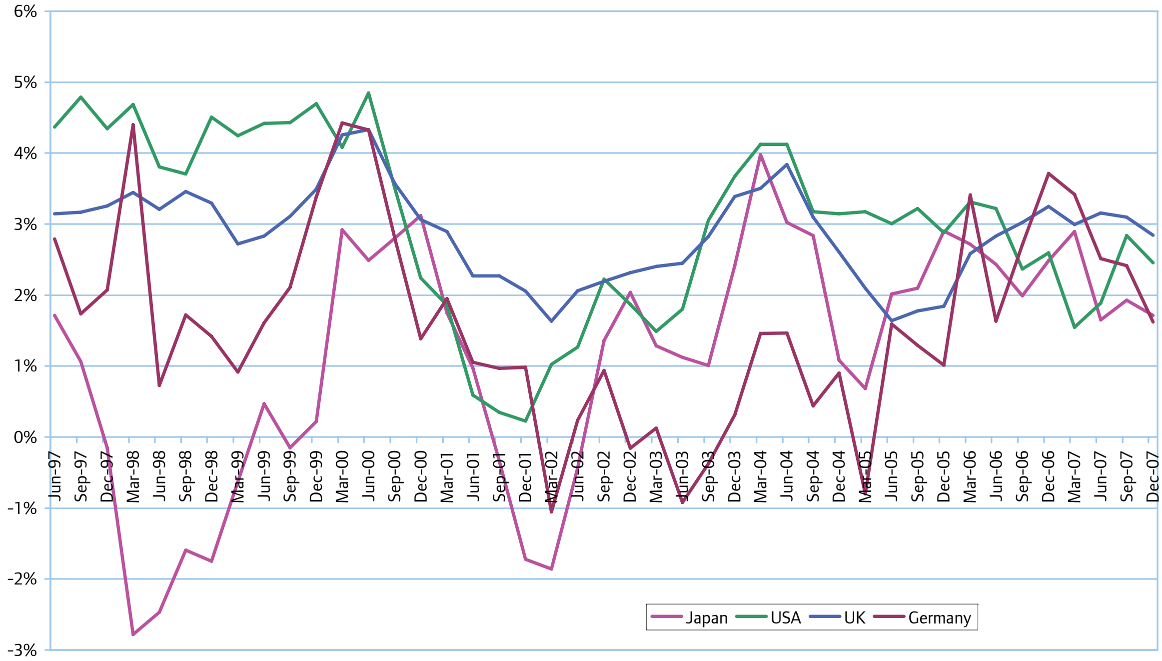
Source: FT.com

The **US** economy has slowed dramatically since Autumn 2007 and is currently close to (if not in) a technical recession (see Box 3.3). The Federal Reserve has cut interest rates by 250 basis points to 2 per cent since the beginning of the year to bolster the economy, especially the housing market which has collapsed.

Growth in the **Eurozone** has so far remained relatively solid. The European Central Bank (ECB) currently expects inflation, which stood at 3.6 per cent in March 2008, to remain its major concern due to high commodity prices. The euro has hit record levels against the dollar, leading to worries from Eurozone exporters. Housing market problems have also emerged in Ireland and Spain and a number of German banks have been hard hit by the ongoing credit crunch. The ECB therefore faces a difficult balancing act between controlling inflation and supporting any future weakness in the Eurozone economy.

Japan's economy faces a decline in exports to the US. This has led to pessimistic forecasts for 2008 with the IMF forecasting Japan to grow by 1.4 per cent.

Figure 3.15: GDP growth in selected industrialised countries
Real GDP, annual % change



Source: Ecowin

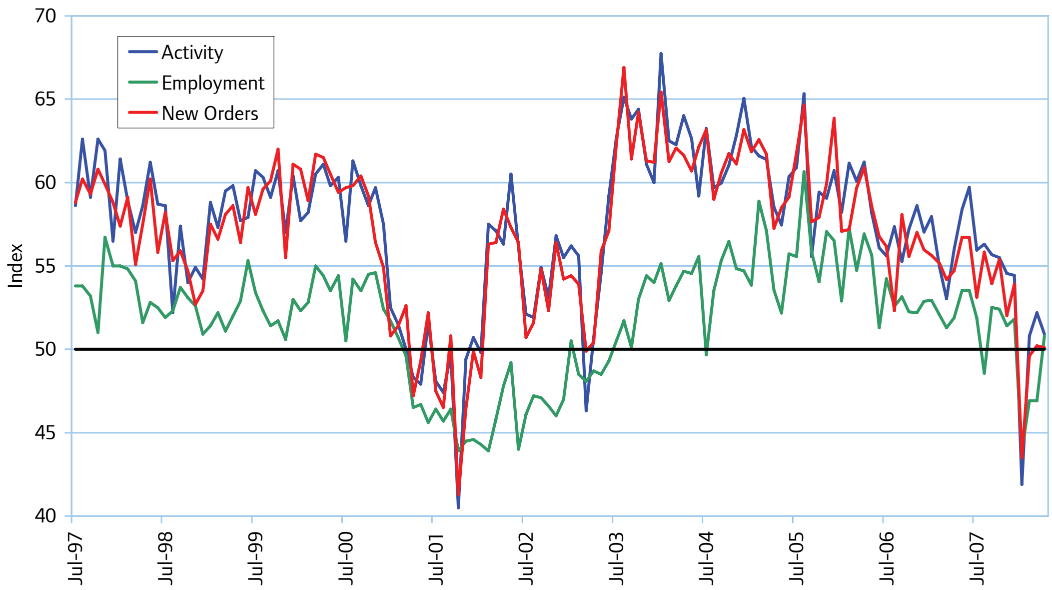
Box 3.3: The US economy close to a recession

The IMF forecasts[xxii] that the US will experience economic growth of only 0.5 per cent in 2008 and 0.6 per cent in 2009. This comes on the back of a slew of bad economic news such as US mortgage foreclosures rising by 57 per cent in January 2008 compared with the same month in 2007[xxiii]. This follows a record number of homes reaching foreclosure in the last quarter of 2007[xxiv]. House prices continue to fall, consumption growth is slow and the number of job layoffs reached a five-year high in March 2008[xxv]. There has also been the collapse of Bear Stearns and falls in consumer confidence. The economic downturn is highlighted in Figure 3.16, the Institute for Supply Management (ISM) survey for non-manufacturers. As can be seen, the survey shows sharp declines in US non-manufacturing employment between January and March; new orders falling in January and February and being virtually stationary in March and April; and business activity only increasing at a subdued rate after a sharp fall in January. This is similar to the pattern shown by the index in the last US recession of 2001.

Figure 3.16: US non-manufacturing business activity, employment and new orders

Last data point is April 2008

(Above 50 indicates an increase, below 50 indicates a decrease)



Source: The Institute for Supply Management

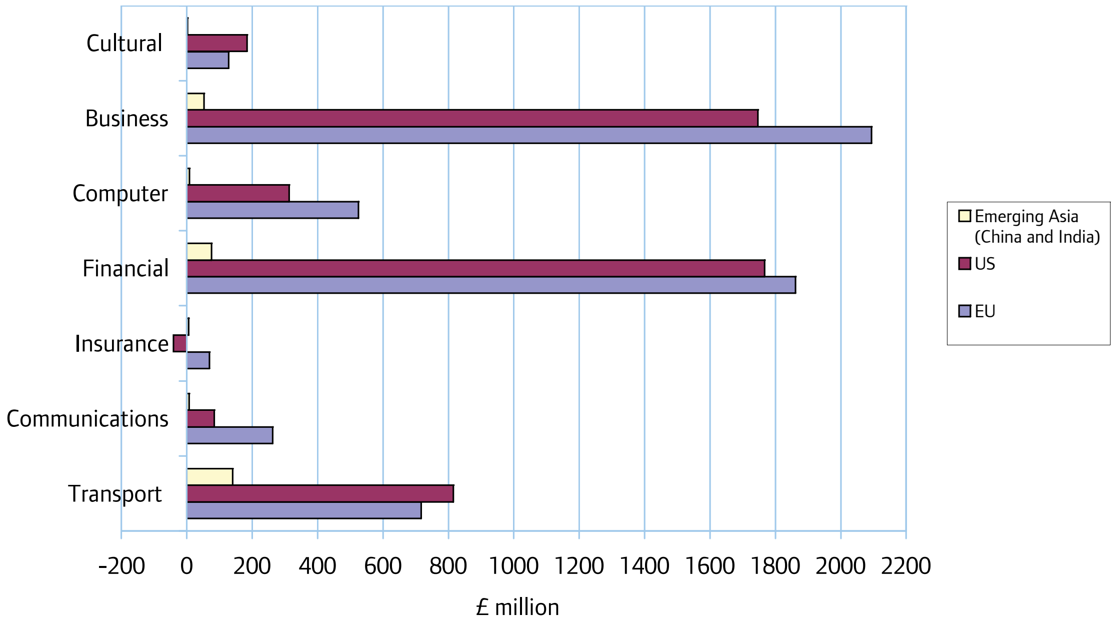
The US fiscal and monetary authorities have responded vigorously to the sharp slowdown by cutting interest rates from 5.5 per cent in mid 2007 to 2 per cent by the end of April (making the real interest rate negative). The Fed has also intervened in the money markets and opened 'the discount window'[xxvi] to investment firms for the first time since the 1930s[xxvii]. Meanwhile Congress has passed a $152bn tax rebate and payout plan in an attempt to stimulate consumption[xxviii]. The source of this slowdown is the continuing fallout from the US sub-prime mortgage loans problems, which precipitated the ongoing credit crunch and damaged the already weakening housing market. Significant losses have occurred at a number of US banks due to their exposure to securitised investments based around these sub-prime mortgages, which had been repackaged and sold as collateralized debt obligations (CDOs). Current liquidity problems are severe and the lending environment has tightened considerably. The Federal Reserves Loans Officer's opinion survey shows a decline in the expected quality of banks loan portfolios over a number of different loan areas[xxix]. Signs of problems emerging in the US commercial property market are evident[xxx]. There are also worries about the general levels of consumer debt such as credit card debt.

A worry in this downturn, compared to previous ones, is the prospect of negative housing equity affecting the ability of Americans to move from recessionary states to those less hit by the downturn as they have traditionally done in the past, with data produced by the Census Bureau showing inter state migration dropping by 27 per cent in 2007[xxxi]. Other risks concern the likely wealth effects on American consumers of a significant stock market downturn and that they may save rather than spend the tax rebates they receive this year. The wider effects of the possible discovery of other bad sub-prime related losses further damaging the financial system are also a cause of worry; the IMF estimates that the cost of the debt losses from this crisis could reach $945bn (similar in size to the Japanese banking crisis of the 1990s)[xxxii]. This is of considerable concern especially if it was combined with losses from other forms of consumer credit or if there were a large number of defaults on heavily leveraged buy-outs[xxxiii].

In the past, recessions in the US have generally led to slowdowns in the world economy and there is concern it will especially hit demand for Chinese exports. However recent research indicates that the Chinese economy may not be as dependent on exports for its growth as generally believed, with significant growth coming from strong domestic demand[xxxiv]. The Eurozone and the UK economies face major slowdowns, although currently they are not expected to enter into a recession. Therefore there is likely to be a significant slowdown in the world economy from a strong position in recent years; the IMF predicts that the likelihood of a global recession is 25 per cent in 2008 and 2009 (they define a global recession as world growth of less than 3 per cent).

For London, a US recession will have a greater impact than on the rest of the UK. Firstly, London's key net service exports have a strong exposure to the US economy (see Figure 3.17). The capital also has a large financial services sector and it is this sector of the economy that is facing the greatest problems across the world. In addition a US recession is likely to reduce the number of relatively high spending US tourists to London, which has a higher exposure to the tourism industry than the rest of the UK.

Figure 3.17: Estimated value of London's key service net exports by sector and by trading partner (main and emerging), 2005



Source: GLA Economics Working Paper 27: Assessment of global imbalances. An estimate by GLA Economics using EcoWin, Pink Book, ONS Annual Business Inquiry for GB jobs.[xxxv]

3.4 Emerging market economies

China's economic expansion continues at a fast pace with the economy growing by 10.6 per cent on a year-to-year basis in the first quarter of 2008[xxxvi]. Inflation remains high at 8.3 per cent in March 2008 slightly down from 8.7 per cent in February (which was an eleven-year high), mainly as a result of rising food prices. This has led to expectations of future further interest rate rises. China's stock market continued its strong performance over 2007 by increasing by more than 100 per cent[xxxvii], however since then it has fallen back and in mid April had fallen to a 12-month closing low[xxxviii]. Its trade surplus hit $19.5bn in January, a 23 per cent year-on-year increase[xxxix], and its foreign reserves increased to $1.5 trillion.

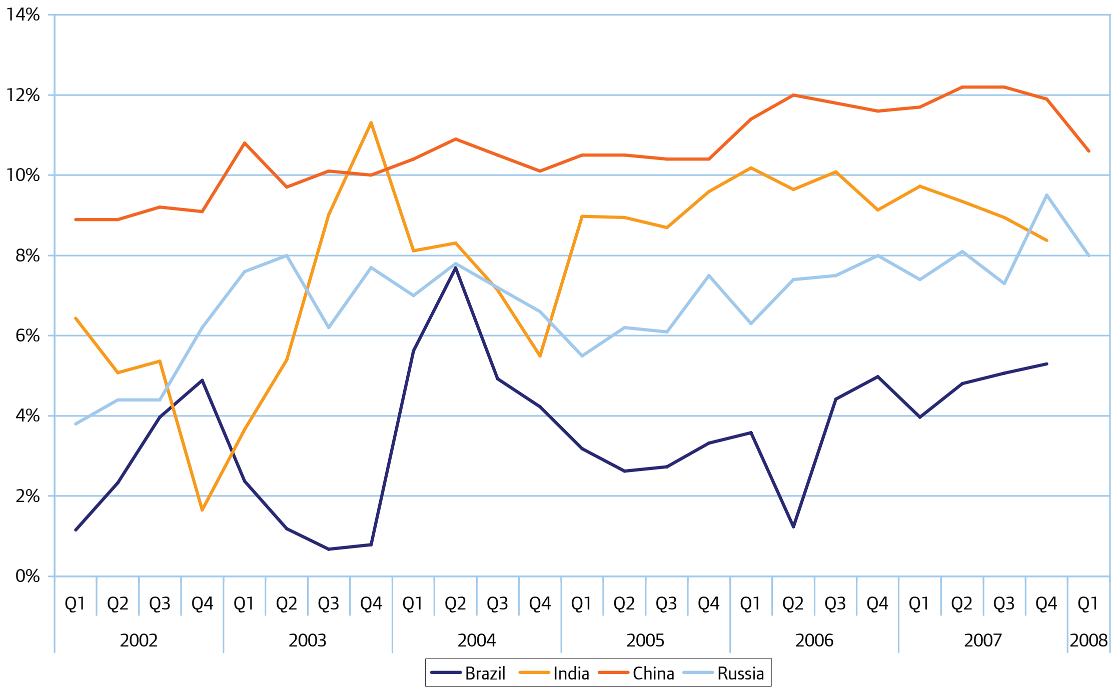
India's economy continues its rapid growth. It grew by 8.4 per cent year-on-year in the fourth quarter of 2007 and the Indian government expects growth in the financial year ending March 2008 to be 8.7 per cent[xl]. The IMF's forecast of India's growth rate for 2008 is a robust 7.9 per cent. India's growth remains strong in the manufacturing and service sectors, however inflationary concerns have increased[xli].

Russia's economy continues to perform well on the back of booming revenues from oil and commodities exports with its foreign currency reserves doubling in less than two years[xlii]. However, concerns about the economy's over dependence on commodities in a cooling global economy have surfaced[xliii].

Brazil's economy grew by an annualised rate of 6.4 per cent in the final quarter of 2007[xliv] and its stock market increased by over 40 per cent in domestic currency terms in

2007. With the central bank forecasting inflation to be 4.6 per cent by the end of 2008, only slightly above the 4.5 per cent inflation target[xlv], the economy is better placed to weather a world economic downturn compared to previous crises.

Figure 3.18: GDP growth in selected emerging market economies
Annual % change



Source: Ecowin

3.5 Risks to the world economy

From a starting position of robust but slowing world growth the downside risks to the global economy now far outweigh any upside risks. In the Autumn 2007 LEO, the global credit crunch was highlighted as a downside risk and the uncertainty associated with this continues to bedevil financial markets and the banking sector. A risk of contagion from the collapse of financial institutions thus remains a concern for the global economy, as does the possibility of financial market problems rapidly spreading to other parts of the economy. Housing markets in many countries are now in considerable difficulties. Further uncertainty in the US economy, which is close to (if not in) recession, could cause a severe slowing of global growth. Emerging economies, especially India and China, are still growing strongly which provides some support to the world economy.

Inflationary pressures from high oil and commodity prices remain as a global downside risk as real incomes come under strain due to rising costs. This will place downward pressure on the consumption of other goods and services. It also makes the job of central banks more difficult and means that interest rates are unlikely to be lowered as much or as quickly as they would have been if current inflationary pressures were not so high. Oil prices, are likely to remain high due to continued geopolitical tensions in a number of producer states, and strong demand from emerging economies. Capacity constraints are likely to reduce the scope for price falls in other commodities, whilst the weak dollar makes commodities such as gold increasingly attractive to investors[xlvi].

Upside risks to the world economy have reduced since the Autumn 2007 LEO, however continued aggressive interest rate cutting by the Federal Reserve and fiscal stimulus in the US could lead to a rebound in 2009. However, the longer the credit crunch continues, the more this positive scenario becomes less and less likely.

3.6 Summary

The London economy continued to perform strongly in the fourth quarter of 2007 with a robust annual growth rate of 4.1 per cent as it continued to outperform the rest of the UK. The outlook over the medium term is for a significant slowdown in growth in 2008 and 2009. It should be noted that given the economy's strong starting position due to robust economic growth in 2007 it is possible that economic growth in 2008 as a whole could be quite reasonable even if the end of the year is pretty weak. If this is the case and the slide in the London economy is strong at the end of 2008 it will take a while to turn around so 2009 could easily be weaker than currently expected. Overall, London's economic performance is likely to be much more sensitive to the recent turmoil in financial markets than the rest of the UK.

The UK economy is also expected to slow in 2008. Both consumption and investment are expected to weaken as credit conditions become more constrained and confidence in the economy falls. Additional government spending is constrained by the extent of projected public borrowing on existing policy. CPI inflation has risen from its recent low of 1.8 per cent in September 2007, and further inflationary pressures remain with the Bank of England warning that it is likely to go above 3 per cent during 2008.

The global economy was again strong in 2007 and growth in the emerging economies remains high. However since mid-2007 there has been some slowing in a number of developed economies. Global growth forecasts have recently been revised downwards and the US economy is already close to (or even in) recession. Further downside risks to the world economy remain if the full economic effect of the credit crunch is more severe than currently indicated or if it lasts for the rest of the year.

The main downside risk to the London economy remains the credit crunch, its general negative effects on financial markets and the possibility of even tighter credit conditions to both businesses and consumers. The tougher lending environment is likely to continue to negatively impact business investment and consumer consumption decisions. London's exposure to the financial services sector possesses major risks for the London economy should the downturn in this sector prove severe and prolonged. Overall the London economy is expected to grow slowly and below trend over the next few years. The slowdown could well be severe and the possibility of a recession cannot be completely ruled out.

4. Review of independent forecasts

What the forecasts provide

In Chapter 5, GLA Economics' forecast of four economic indicators is provided: workforce employment, real output, private consumption (household expenditure) and household income in London. In this chapter the consensus view on the first three of these indicators is summarised, drawing on forecasts from outside (independent) organisations[xlvii]. Both annual growth rates and 'standardised' absolute levels are reported. All the data is in real terms (constant prices).

Additionally, both the consensus and GLA Economics' own forecasts provide predictions of employment and output growth in six broad sectors:

- manufacturing
- construction
- transport and communications
- distribution, hotels and catering
- finance and business services
- other (mainly public) services.

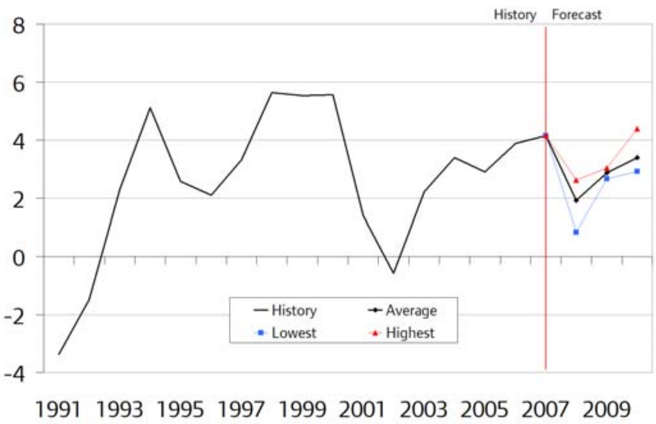
Output

(London GVA, constant prices (2003 base year), £ billion)

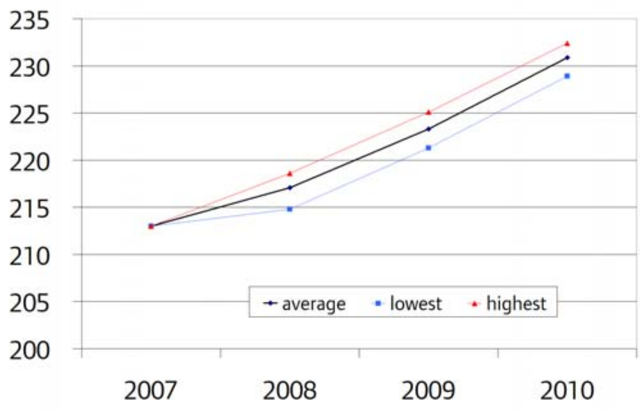
The consensus (mean average view) is for real output growth to slow from its recent high level to below trend over the coming year before rebounding to above trend growth: 1.9 per cent in 2008, 2.9 per cent in 2009 and 3.4 per cent in 2010.

The spread of predicted growth rates is relatively wide in 2008, with one forecaster predicting growth of 0.8 per cent whereas another forecasts 2.6 per cent.

Annual growth (per cent)



Level (constant year 2003, £ billion)



Annual growth (per cent)			
	2008	2009	2010
Average	1.9	2.9	3.4
Lowest	0.8	2.7	2.9
Highest	2.6	3.0	4.4

Level (constant year 2003, £ billion)			
	2008	2009	2010
Average	217	223	231
Lowest	215	221	229
Highest	219	225	232

History: Annual growth (per cent)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
-3.4	-1.5	2.3	5.1	2.6	2.1	3.3	5.6	5.5	5.6	1.4	-0.6	2.2	3.4	2.9	3.9	4.2

History: Level (constant year 2003, £ billion)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
133.1	131.1	134.2	141.0	144.7	147.7	152.6	161.2	170.1	179.6	182.1	181.1	185.1	191.3	196.9	204.5	213.0

Employment

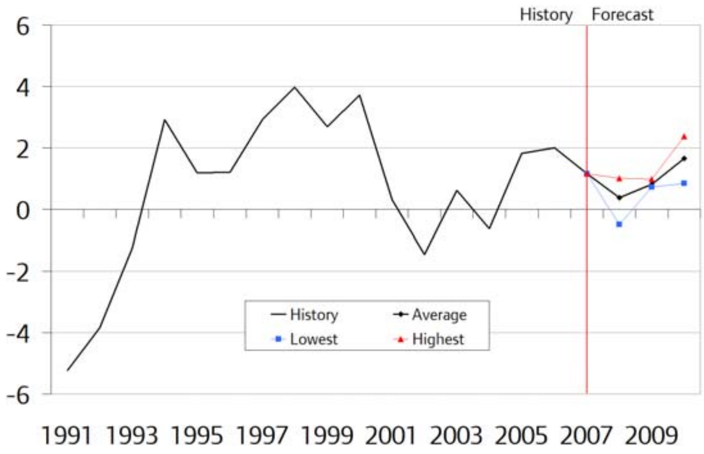
(London workforce jobs)

London's labour market showed solid growth in 2007 with workforce jobs growth at 1.2 per cent.

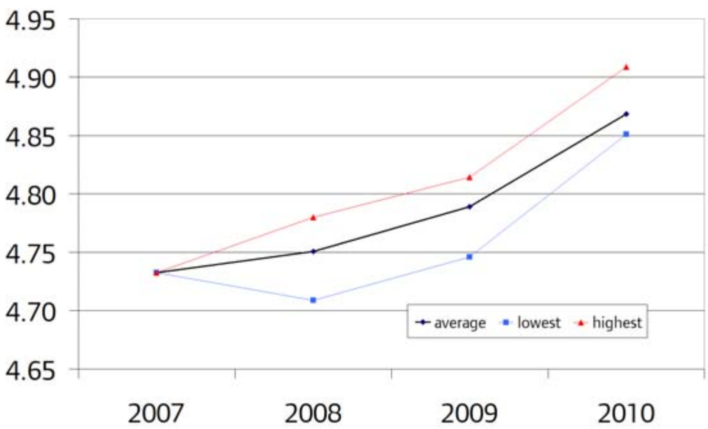
The consensus view is for workplace jobs to grow more slowly over the next two years: 0.4 per cent in 2008, 0.8 per cent in 2009 and 1.7 per cent in 2010.

The independent forecasters are in broad agreement on the path of workforce jobs in London: the spread of workforce jobs in 2010 ranges from 4.85 million to 4.91 million.

Annual growth (per cent)



Level (millions)



Annual growth (per cent)			
	2008	2009	2010
Average	0.4	0.8	1.7
Lowest	-0.5	0.7	0.8
Highest	1.0	1.0	2.4

Level (millions)			
	2008	2009	2010
Average	4.75	4.79	4.87
Lowest	4.71	4.75	4.85
Highest	4.78	4.81	4.91

History: Annual growth (per cent)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
-5.2	-3.8	-1.3	2.9	1.2	1.2	2.9	4.0	2.7	3.7	0.3	-1.5	0.6	-0.6	1.8	2.0	1.2

History: Level (millions)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
4.00	3.84	3.80	3.91	3.95	4.00	4.12	4.28	4.40	4.56	4.57	4.51	4.53	4.51	4.59	4.68	4.73

Household expenditure

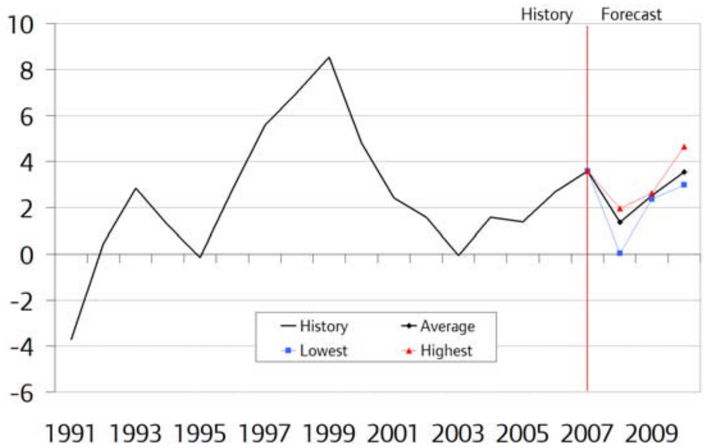
(London household spending, constant year 2003, £ billion)

Growth in household expenditure was strong at 3.6 per cent in 2007.

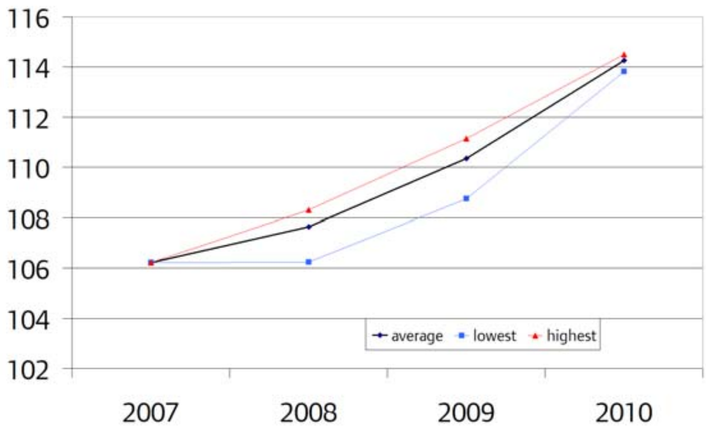
The consensus view is for household expenditure growth to slow down: 1.4 per cent in 2008, 2.5 per cent in 2009 and 3.5 per cent in 2010.

Household expenditure is expected to be around £115 billion by 2010.

Annual growth (per cent)



Level (constant year 2003 £ billion)



Annual growth (per cent)			
	2008	2009	2010
Average	1.4	2.5	3.5
Lowest	0.0	2.4	3.0
Highest	2.0	2.6	4.7

Level (constant year 2003, £ billion)			
	2008	2009	2010
Average	108	110	114
Lowest	106	109	114
Highest	108	111	115

History: Annual growth (per cent)

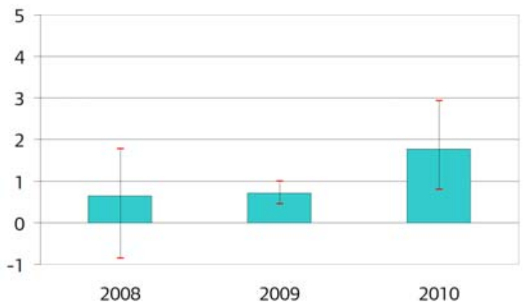
1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
-3.7	0.5	2.8	1.2	-0.1	2.8	5.6	7.0	8.5	4.8	2.4	1.6	-0.1	1.6	1.4	2.7	3.6

History: Level (constant year 2003, £ billion)

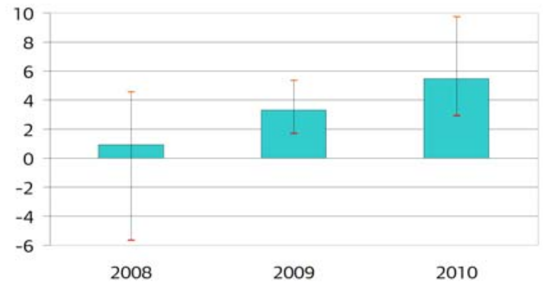
1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
67.6	67.9	69.8	70.7	70.6	72.6	76.6	82.0	89.0	93.3	95.5	97.0	97.0	98.5	99.9	102.5	106.2

Output growth by sector (per cent annual change)
Growth is expected across all sectors over the medium term. The highest growth is expected in the financial and business services sector. Manufacturing growth is expected to be sluggish.

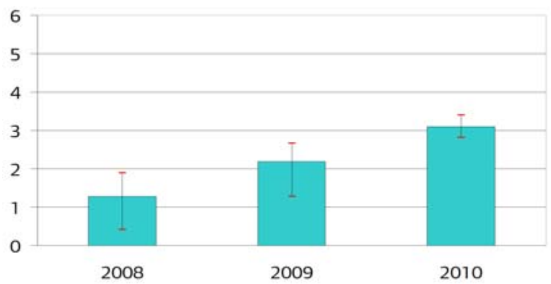
Manufacturing



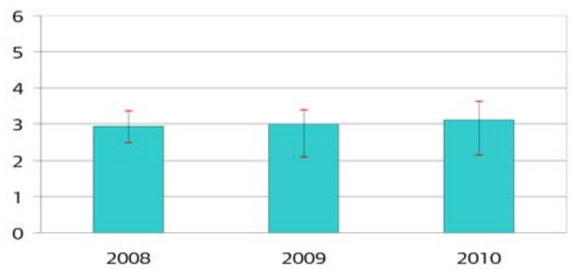
Construction



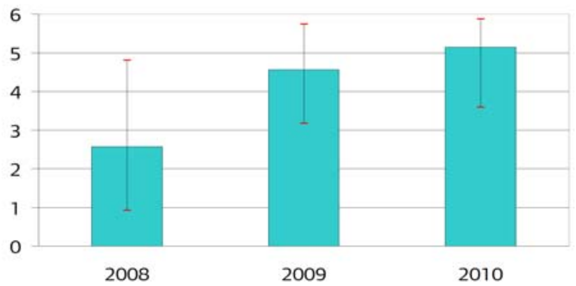
Distribution, hotels and catering



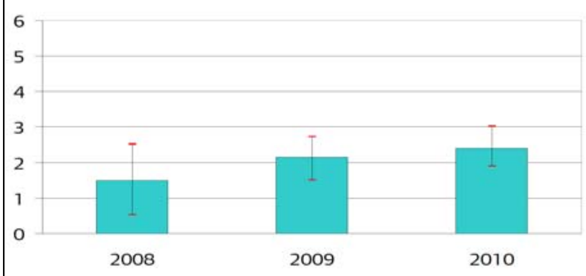
Transport and communications



Finance and business



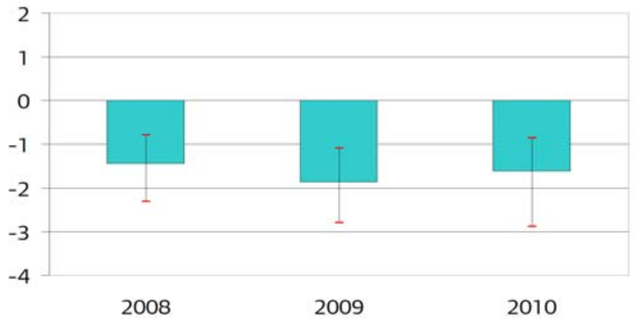
Other (mainly public) services



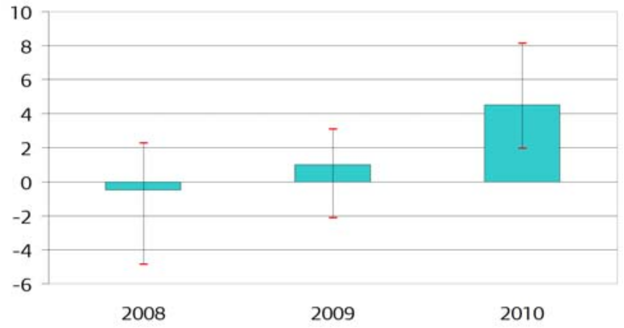
		2008	2009	2010			2008	2009	2010
Manufacturing	*Average*	0.7	0.7	1.8	**Construction**	*Average*	0.9	3.3	5.5
	Lowest	-0.9	0.5	0.8		*Lowest*	-5.6	1.7	2.9
	Highest	1.8	1.0	2.9		*Highest*	4.6	5.4	9.7
Distribution, hotels and catering	*Average*	1.3	2.2	3.1	**Transport and communications**	*Average*	2.9	3.0	3.1
	Lowest	0.4	1.3	2.8		*Lowest*	2.5	2.1	2.2
	Highest	1.9	2.7	3.4		*Highest*	3.4	3.4	3.6
Finance and business	*Average*	2.6	4.6	5.1	**Other (mainly public) services**	*Average*	1.5	2.2	2.4
	Lowest	0.9	3.2	3.6		*Lowest*	0.5	1.5	1.9
	Highest	4.8	5.7	5.9		*Highest*	2.5	2.7	3.0

Employment growth by sector (per cent annual change)
Forecasted employment growth shows a mixed pattern across the sectors. Reasonable employment growth is expected in financial and business services. Slow or negative employment growth is expected in all other sectors apart from construction in 2010.

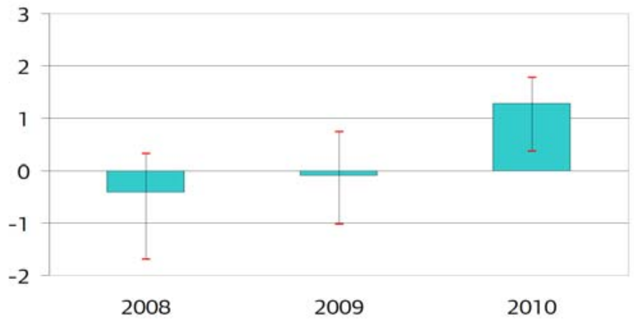
Manufacturing



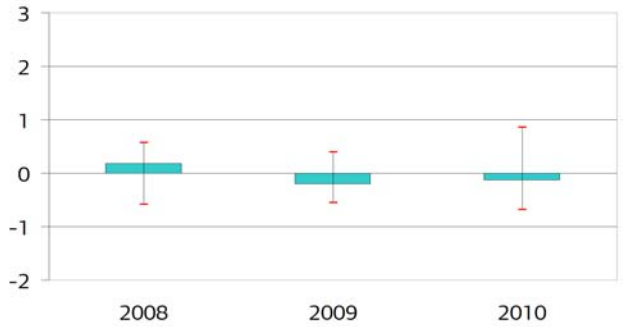
Construction



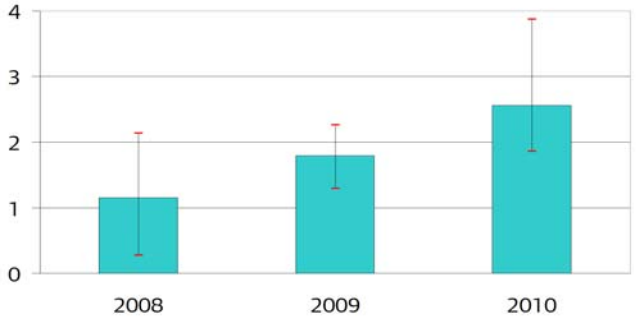
Distribution, hotels and catering



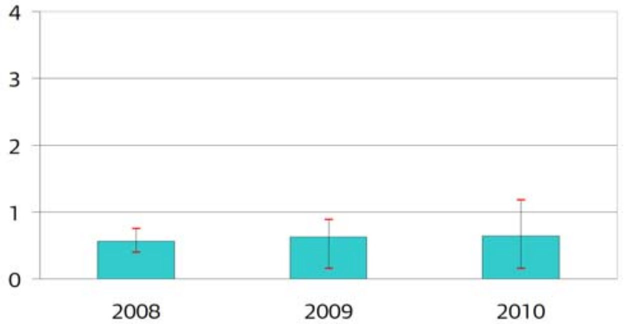
Transport and communications



Finance and business



Other (mainly public) services



		2008	2009	2010			2008	2009	2010
Manufacturing	*Average*	-1.5	-1.9	-1.6	**Construction**	*Average*	-0.5	1.0	4.5
	Lowest	-2.3	-2.8	-2.9		*Lowest*	-4.9	-2.1	2.0
	Highest	-0.8	-1.1	-0.9		*Highest*	2.2	3.1	8.1
Distribution, hotels and catering	*Average*	-0.4	-0.1	1.3	**Transport and communications**	*Average*	0.2	-0.2	-0.1
	Lowest	-1.7	-1.0	0.4		*Lowest*	-0.6	-0.5	-0.7
	Highest	0.3	0.7	1.8		*Highest*	0.6	0.4	0.9
Finance and business	*Average*	1.2	1.8	2.6	**Other (mainly public) services**	*Average*	0.6	0.6	0.6
	Lowest	0.3	1.3	1.9		*Lowest*	0.4	0.2	0.2
	Highest	2.1	2.3	3.9		*Highest*	0.8	0.9	1.2

5. The GLA Economics forecast

5.1 Assumptions and methods

This forecast combines the GLA's long-term trend projections for employment and population with medium-term assumptions about the growth of the UK economy. Note that the GLA forecast is based on assumptions up to 2026, though the forecast itself only goes up to 2010.

The model is constrained for the year 2026 to London-based employment projections derived from the long-term growth rate of London's workforce. The UK assumptions comprise the medium-term growth rates of UK total output. An update of the GLA's long-term employment projections for London are currently being worked on.

5.2 Projections and forecasts

It is necessary to distinguish carefully between the GLA's long-term employment projections and this forecast, which contains the GLA's medium-term planning projections. Trend projections, by definition, do not incorporate cyclical variations and constitute estimates of jobs and output at comparable points in the cycle. The actual course of output and employment will vary around this trend. Trend projections are essential for planning to provide capacity (such as office space, housing and transport) to accommodate the needs of the economy throughout and at the peak of the cycle, not just at its low points. For business planning (for example, in deciding the timing of investments and the likely course of revenue) estimates of actual numbers of jobs and actual output at any point in time are required. The medium-term planning projections provide these estimates.

As time progresses and more data become available, it becomes possible to identify turning points in the data; whether underlying trends are continuing or new trends are being established. While the forecast is calibrated to the GLA's employment projections for 2026, it provides early warnings of significant deviations from these projections because it accounts for the most recent data and incorporates the latest estimates of UK growth rates.

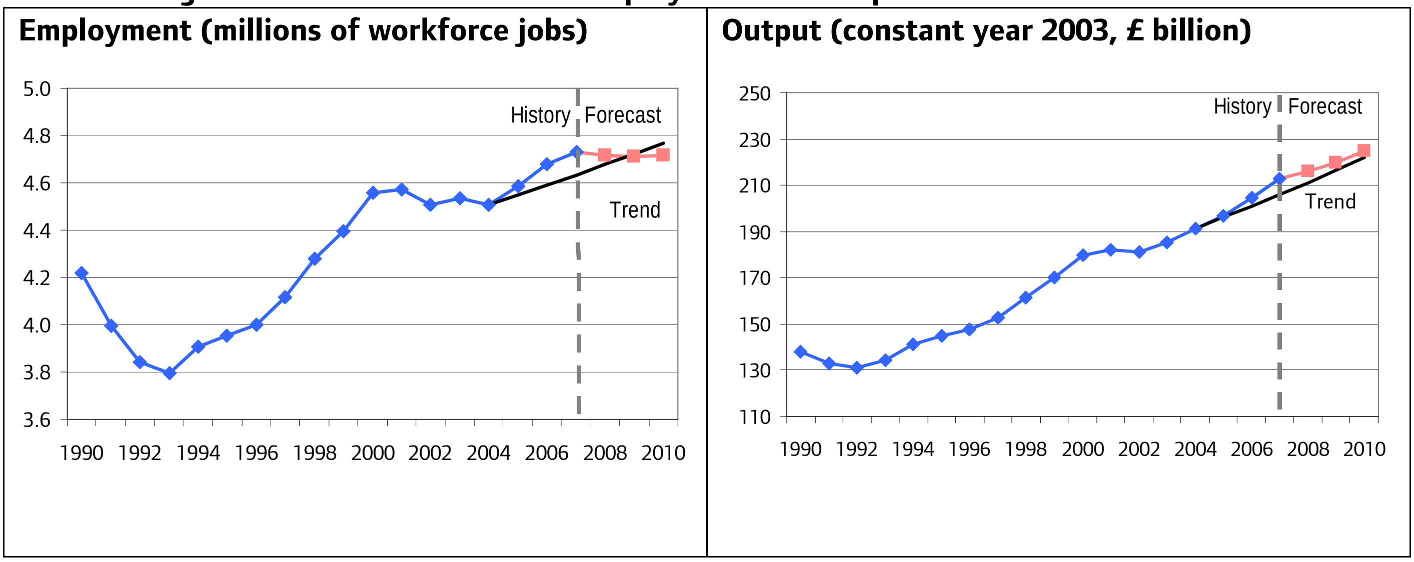
In 2007 the GLA commissioned new employment projections from Volterra Consulting, which now form the trend projection on which the medium-term forecast is based. The start point for the trend projection is 2004. For this reason 2004 is taken as the start point for all trend (long-term) projections. For comparison purposes, absolute (level) trend projections were derived by applying the trend growth rates to the historical data available in 2004. These levels may differ from the absolute levels for GVA, employment and household expenditure published elsewhere as a result of revisions to historical data as better information becomes available.

5.3 Results

Output growth is expected to slow significantly, to a rate below 2 per cent a year in 2008 and 2009, before rebounding to 2.2 per cent in 2010. Employment is forecast to shrink slightly in 2008 and 2009.

Following strong growth in 2007, household spending growth is forecast to slow markedly in 2008, before a small recovery in 2009-2010. Household income growth is forecast to be moderate throughout the forecast period.

Figure 5.1: Trend and forecast employment and output



Source: GLA Economics' calculations

Table 5.1: Forecast and historical growth rates

Annual % change

	2002	2003	2004	2005	2006	2007	2008	2009	2010
GVA	-0.6	2.2	3.4	2.9	3.9	4.2	1.3	1.8	2.2
Workforce jobs	-1.5	0.6	-0.6	1.8	2.0	1.2	-0.3	-0.1	0.1
Household spending	1.6	-0.1	1.6	1.4	2.7	3.6	0.6	1.1	2.2
Household income	1.3	2.8	0.6	3.6	0.9	0.6	1.2	1.9	2.6

Table 5.2: Forecast and historical levels

(constant year 2003, £ billion except jobs)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
GVA	181.1	185.1	191.3	196.9	204.5	213.0	215.9	219.7	224.5
Workforce jobs (millions)	4.51	4.53	4.51	4.59	4.68	4.73	4.72	4.71	4.72
Household spending	97.0	97.0	98.5	99.9	102.5	106.2	106.9	108.1	110.4
Household income	108.2	111.3	111.9	115.9	117.0	117.7	119.1	121.4	124.6

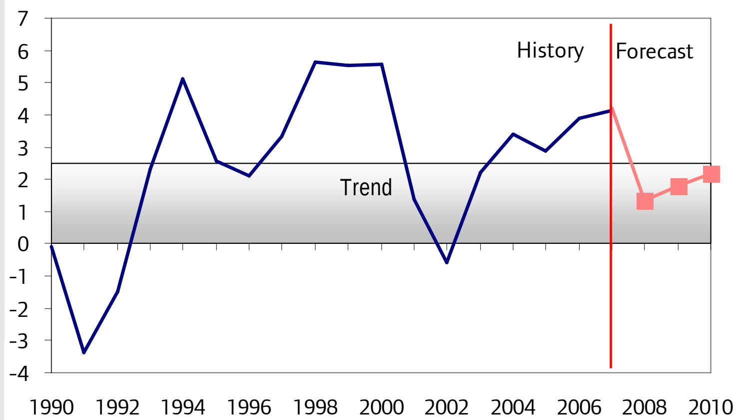
Output

(London GVA, constant year 2003, £ billion)

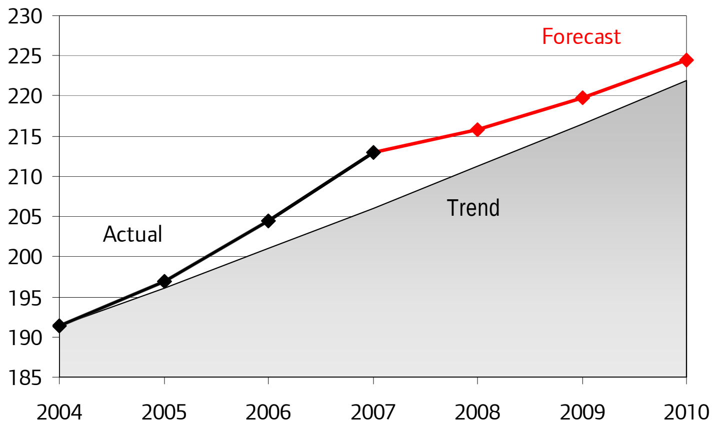
London real GVA growth is forecast to grow below trend over the medium term. Forecast growth rates are 1.3 per cent in 2008, rising to 1.8 per cent in 2009 and 2.2 per cent in 2010.

The GLA forecast is below the consensus average growth forecast throughout 2008-2010.

Annual growth (per cent)



Level (constant year 2003, £ billion)



Growth (annual per cent)				
	2007	**2008**	**2009**	**2010**
GLA	4.2	1.3	1.8	2.2
Consensus		1.9	2.9	3.4

Level (constant year 2003, £ billion)				
	2007	**2008**	**2009**	**2010**
GLA	213	216	220	225
Consensus		217	223	231

History: Annual growth (per cent)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
-3.4	-1.5	2.3	5.1	2.6	2.1	3.3	5.6	5.5	5.6	1.4	-0.6	2.2	3.4	2.9	3.9	4.2

History: Level (constant year 2003, £ billion)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
133.1	131.1	134.2	141.0	144.7	147.7	152.6	161.2	170.1	179.6	182.1	181.1	185.1	191.3	196.9	204.5	213.0

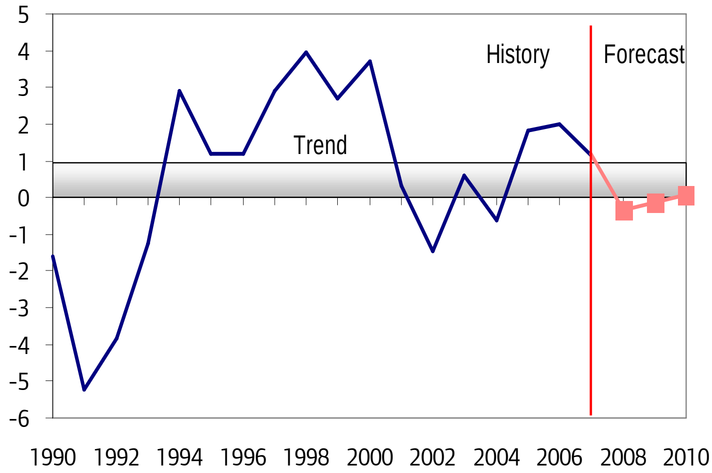
Employment
(London workforce jobs)

London's employment is forecast to fall slightly in 2008 and 2009.

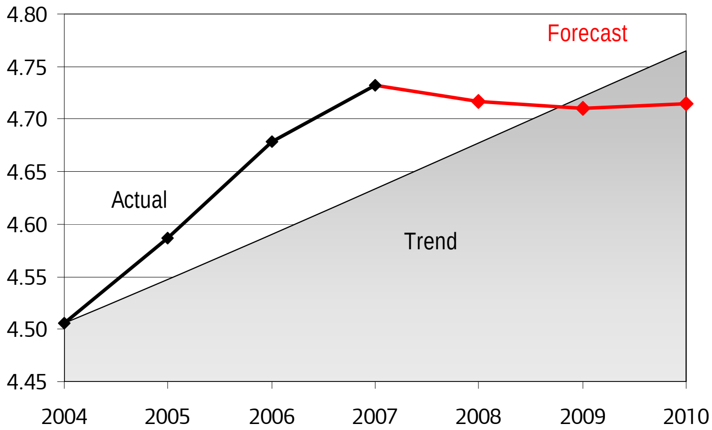
The GLA forecast for employment growth is lower than the consensus average in 2008-2010.

By 2010, London is expected to have 4.72 million workforce jobs, slightly less than in 2007.

Annual growth (per cent)



Level (millions of workforce jobs)



Growth (annual per cent)				
	2007	**2008**	**2009**	**2010**
GLA	1.2	-0.3	-0.1	0.1
Consensus		0.4	0.8	1.7

Level (millions of workforce jobs)				
	2007	**2008**	**2009**	**2010**
GLA	4.73	4.72	4.71	4.72
Consensus		4.75	4.79	4.87

History: Annual growth (per cent)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
-5.2	-3.8	-1.3	2.9	1.2	1.2	2.9	4.0	2.7	3.7	0.3	-1.5	0.6	-0.6	1.8	2.0	1.2

History: Level (millions)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
4.00	3.84	3.80	3.91	3.95	4.00	4.12	4.28	4.40	4.56	4.57	4.51	4.53	4.51	4.59	4.68	4.73

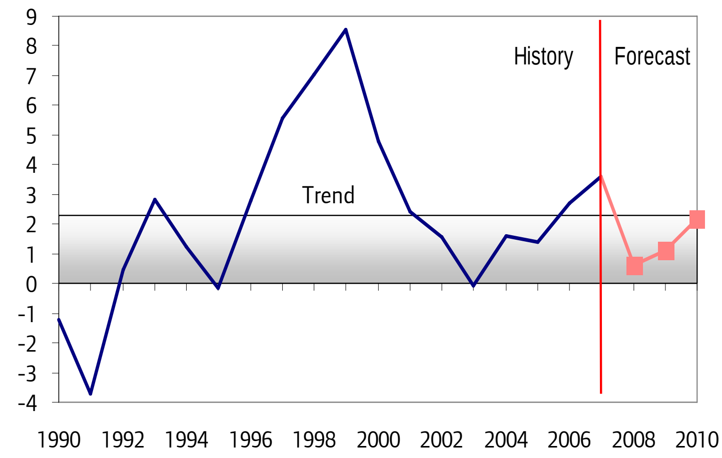
Household expenditure

(London household spending, constant year 2003, £ billion)

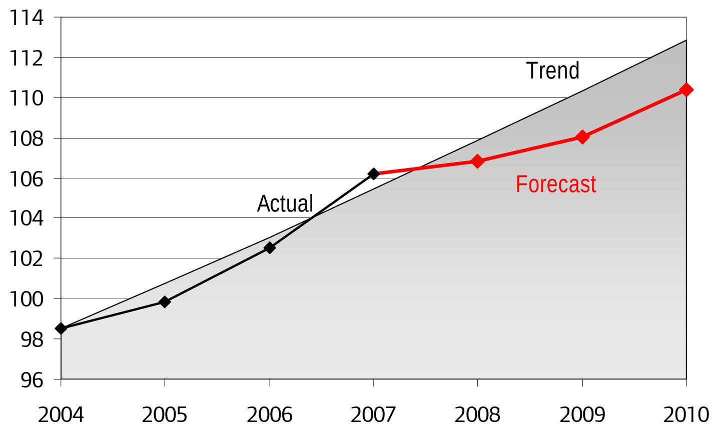
Growth in London household spending is forecast to fall to 0.6 per cent in 2008, before recovering slightly to 1.1 per cent in 2009 and 2.2 per cent in 2010.

This places the GLA forecast below the consensus average.

Annual growth (per cent)



Level (constant year 2003, £ billion)



Growth (annual per cent)				
	2007	2008	2009	2010
GLA	3.6	0.6	1.1	2.2
Consensus		1.4	2.5	3.5

Level (constant year 2003, £ billion)				
	2007	2008	2009	2010
GLA	106	107	108	110
Consensus		108	110	114

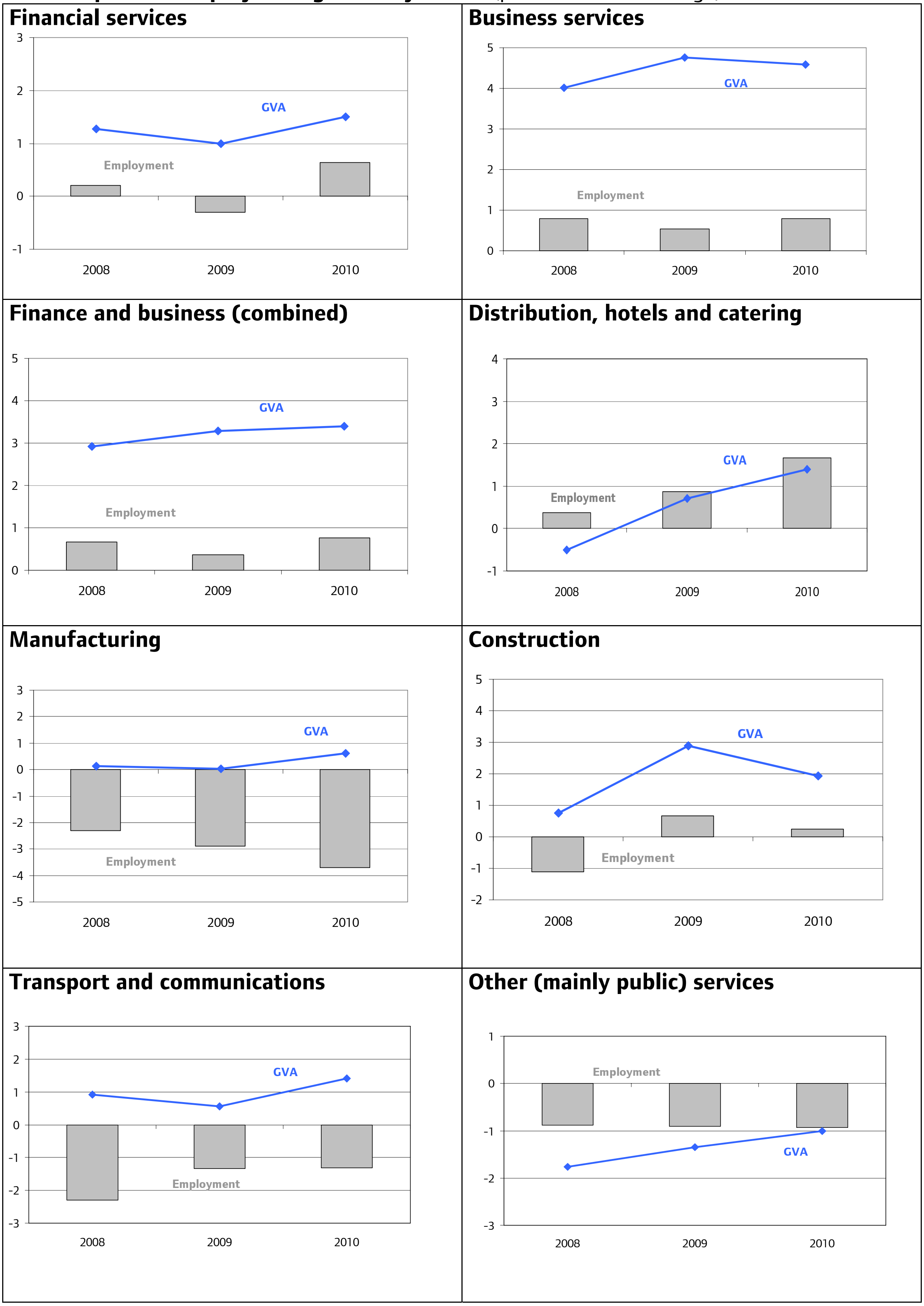
History: Annual growth (per cent)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
-3.7	0.5	2.8	1.2	-0.1	2.8	5.6	7.0	8.5	4.8	2.4	1.6	-0.1	1.6	1.4	2.7	3.6

History: Level (constant year 2003, £ billion)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
67.6	67.9	69.8	70.7	70.6	72.6	76.6	82.0	89.0	93.3	95.5	97.0	97.0	98.5	99.9	102.5	106.2

Output and employment growth by sector (per cent annual change)



Output and employment growth by sector (per cent annual change)

	2008	2009	2010
Financial services			
Output	1.3	1.0	1.5
Employment	0.2	-0.3	0.6
Business services			
Output	4.0	4.8	4.6
Employment	0.8	0.5	0.8
Financial and business services combined			
Output	2.9	3.3	3.4
Employment	0.7	0.4	0.8
Distribution, hotels and catering			
Output	-0.5	0.7	1.4
Employment	0.4	0.9	1.7
Transport and communications			
Output	0.9	0.6	1.4
Employment	-2.3	-1.3	-1.3
Other (mainly public) services			
Output	-1.8	-1.3	-1.0
Employment	-0.9	-0.9	-0.9
Manufacturing			
Output	0.1	0.0	0.6
Employment	-2.3	-2.9	-3.7
Construction			
Output	0.7	2.9	1.9
Employment	-1.1	0.7	0.2
(Memo: non-manufacturing)			
Output	1.4	1.9	2.3
Employment	-0.2	0.0	0.3

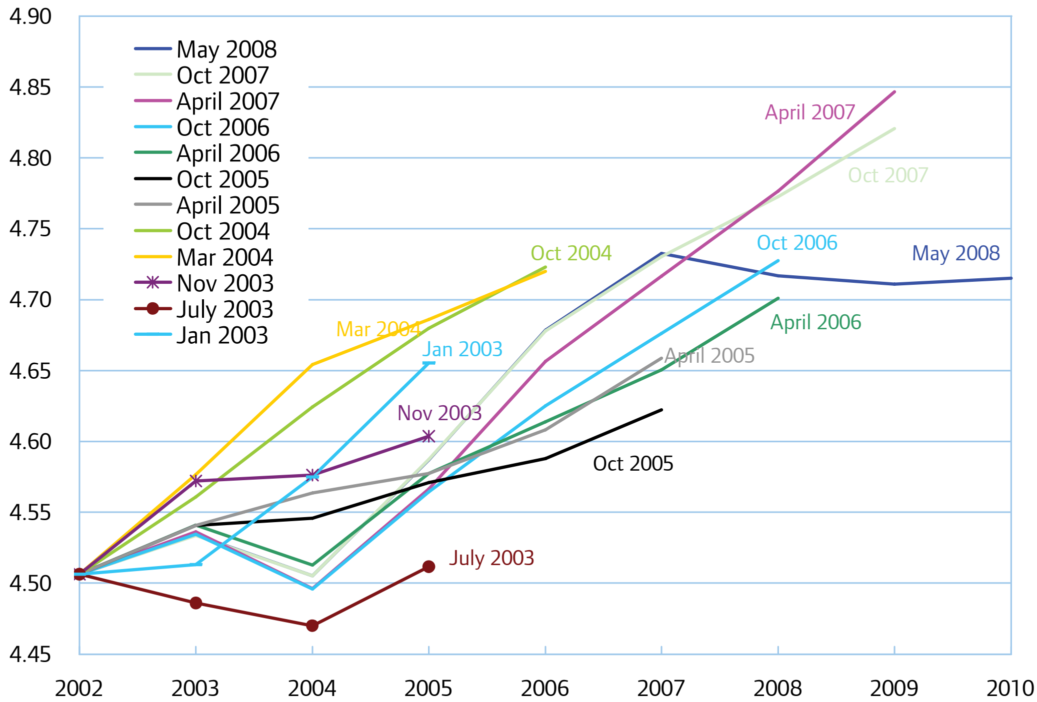
Over 2008 to 2009 employment in financial services in London is expected to fall slightly. The risks to this are on the downside (i.e the fall could be larger) and there is uncertainty in the exact timing of the effects of the credit crunch on financial services employment (i.e whether the impact will be seen by the end of 2008 or in fact whether the impact will mainly occur in 2009).

5.4 Comparison with previous forecasts

This section compares the current forecast with previous forecasts in this series. Since the base years for the forecasts change and the base data is continuously revised, the forecasts have been rebased into a common base year for the comparison in Figures 5.2 and 5.3.

The most recent forecast for London's workforce jobs growth and output growth is lower than in previous forecasts.

Figure 5.2: Employment – latest forecast compared with previous forecasts
(millions of workforce jobs)

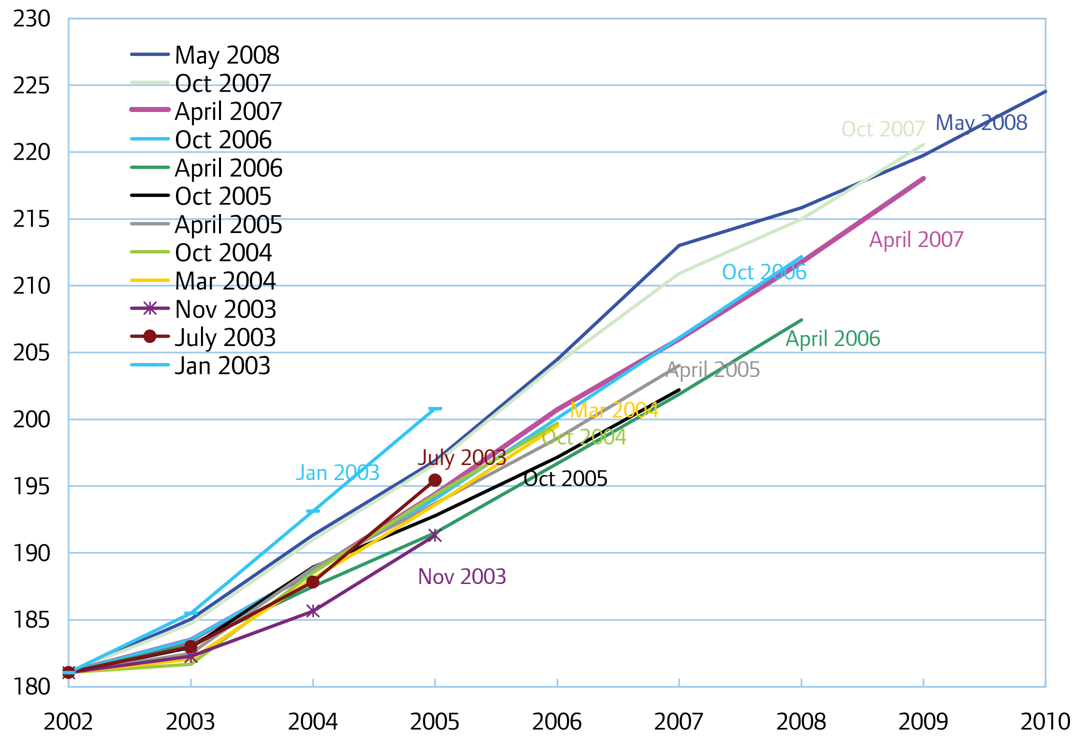


Source: Various London's Economic Outlooks

Table 5.3: Comparisons with previous published forecasts
(London workforce jobs, per cent annual growth)

Forecast	2003	2004	2005	2006	2007	2008	2009	2010
May 2008	**0.6%**	**-0.6%**	**1.8%**	**2.0%**	**1.2%**	-0.3%	-0.1%	0.1%
Oct 2007					1.2%	0.9%	1.0%	
April 2007					1.2%	1.4%	1.5%	
Oct 2006				1.3%	1.1%	1.1%		
April 2006				0.8%	0.8%	1.1%		
Oct 2005			0.6%	0.4%	0.8%			
April 2005			0.3%	0.7%	1.1%			
Oct 2004		1.4%	1.2%	0.9%				
Mar 2004		1.7%	0.7%	0.7%				
Nov 2003	1.5%	0.1%	0.6%					
July 2003	-0.5%	-0.4%	0.9%					
Jan 2003	0.2%	1.4%	1.8%					

Figure 5.3: Output – latest forecast compared with previous forecasts
(constant year 2003, £ billion)



Source: Various London's Economic Outlooks

Table 5.4: Comparisons with previous published forecasts
(London GVA, per cent annual growth)

Forecast	2003	2004	2005	2006	2007	2008	2009	2010
May 2008	**2.2%**	**3.4%**	**2.9%**	**3.9%**	**4.2%**	1.3%	1.8%	2.2%
Oct 2007					3.3%	2.0%	2.6%	
April 2007					2.6%	2.8%	3.0%	
Oct 2006				3.1%	3.0%	3.0%		
April 2006				2.7%	2.6%	2.8%		
Oct 2005			2.0%	2.3%	2.6%			
April 2005			2.6%	2.5%	2.7%			
Oct 2004		3.8%	3.1%	2.7%				
Mar 2004		3.3%	2.9%	3.0%				
Nov 2003	0.7%	1.9%	3.0%					
July 2003	1.1%	2.6%	4.1%					
Jan 2003	2.4%	4.1%	4.0%					

6. The new Annual Business Inquiry (ABI/1): Change in London's employee jobs in 2006

By Tom Knight (ONS) and Alan Wood (GLA Economics)

This article examines what new information the 2006 ABI/1 employee jobs dataset indicates for the London employment picture. 2006 ABI/1 data are subject to a large discontinuity, which means direct comparisons with 2005 data are not possible. As a result, we consider: what ABI/1 2006 data show as a free-standing dataset; what adjustments can be made to enable comparison with 2005 data; whether these adjustments are accurate enough at the regional level to rely on; what other employment indicators show; and, further analysis which might clarify the employee jobs picture at the regional level. The main findings are summarised below.

- The ABI/1 (latest release December 12 2007) should provide the most accurate industrial and regional snapshot of employment as at September 2006.
- For the first time 2006 ABI/1 includes Business Registers Survey (BRS) local unit data within the results as well as an improvement to small area analysis. This should represent an improvement to the detailed industry and regional employment estimates going forward.
- ABI/1 2006 data were subject to three discontinuities. Bringing the reference date forward from December to September is likely to be the largest of the three methodological changes (a recommendation of the ONS Review of Employment and Job Statistics[xlviii]).
- By no longer capturing seasonal employment gains between September and December 2006 (greatest in the retail, and hotel and restaurant sectors), ABI/1 understates employment growth in London for 2006 if compared with 2005 ABI/1 estimates.
- BRS data is used for the first time within 2006 ABI/1 to more accurately apportion local unit employment of large businesses and may have (correctly) apportioned a significant amount of local unit employment away from London.
- Whilst ABI/1 is the best measure of employee levels for 2006, because of the discontinuity ABI/1 2006 estimates are not directly comparable with 2005 results. The Workforce Job series remains the best source for analysis of year-on-year changes in the number of employee jobs (although this is also affected by the ABI/1 discontinuity).
- Analysis of the Short Term Employment Surveys (STES) suggests that London's employment increased by around 24,000 between 2005 and 2006 and we consider this to be a more robust estimate of the actual change in employment between 2005 and 2006 than that illustrated by ABI/1 (even after accounting for the discontinuity as below).
- The ABI/1 team estimate the discontinuity is 150,000 to 350,000 employee jobs in 2006 at the GB level in a downwards direction. Using employment shares to pro rata this discontinuity equates to a discontinuity of around 24,000 to 52,000 employee jobs in 2006 in a downwards direction at the London level.

- After adjusting ABI/1 figures between 2005 and 2006 to account for the discontinuity, job growth in London according to ABI/1 was negative at -0.3 per cent (a decrease of 13,000 jobs). This contrasts sharply with previous years and national employee job growth in 2006 which, after adjustment, showed an increase. Analysis of alternative surveys also suggests that London's total employee level rose in 2006. As a result, this discontinuity adjusted London figure is likely to underestimate actual job growth by not fully accounting for the full effect of the three discontinuities.

6.1 ABI background

The Annual Business Inquiry (ABI) is a two-part survey of a representative sample of employers in the United Kingdom and completion of the survey is compulsory under the Statistics of Trade Act 1947. The subject of this paper is part one or ABI/1 which collects information on employment. The ABI/1 replaced the Annual Employment Survey (AES) in 1998, which itself replaced the Census of Employment in 1995. ABI/2 collects financial information on firms.

The ABI/1 is an employer survey of the number of jobs held by employees broken down by sex, full/part-time and detailed industry (4 digit Standard Industrial Classification (SIC)); the survey records jobs at the location of an employee's workplace. The 2006 Inquiry selected approximately 74,000 businesses with the sample being drawn from the Inter-Departmental Business Register (IDBR)[xlix].

The latest ABI/1 was released on the NOMIS website on December 12 2007 and provides a snapshot of employment as at September 2006. Substantial methodological changes have been introduced with the latest ABI/1 2006 release going forward. The following changes mean that comparison of 2006 ABI/1 data with previous years should be treated with caution. However the changes should ensure that 2006 ABI/1 data provide the most accurate industrial and regional estimates of employment to date.

The 2006 ABI/1 is subject to three discontinuities[l]:

1. Change in reference date from December to September
2. Use of Business Register Survey data within the ABI/1 results
3. Change to the Minimum Domain Methodology

The first two changes combined together cause a large discontinuity. The discontinuities significantly affect comparisons of the 2006 ABI/1 employment estimates with earlier years. Consequently, figures for 2006 are now not directly comparable with past ABI/1 releases. However the ONS consider these changes as an improvement to the detailed industry and regional employment estimates for 2006 going forward. Moreover 2006 data will continue to provide useful information on sectoral and regional employment shares as the ABI/1 is the preferred source of information on the industrial structure of the GB economy at a specific point in time.

The changes in the way ONS constructs annual employment estimates from the ABI/1 are part of the first phase in the transition to the Business Register and Employment Survey (BRES). BRES will replace the ABI/1 and the Business Register Survey (BRS) for the 2009 survey period. BRES brings a step-change in the provision of regional data and implements a key recommendation of the Allsopp review[li].

The scale of the overall discontinuity in employment between the 2005 and 2006 ABI/1 is estimated to be in the range of 150,000 to 350,000 (0.6 to 1.3 per cent of total employees) in a downwards direction at the GB level. However, the level of the discontinuity varies by industry, for instance moving the reference date forward from December to September will impact differently on different sectors depending on the seasonal nature of employment in the respective sectors.

As 2007 ABI/1 data become available, it may be possible to further analyse how the discontinuities affect employment on a regional basis. To better understand the discontinuity and its implications, the following analysis compares 2006 data with earlier years on a December to December basis by attempting to account for the discontinuity in 2006 data for London. This is attempted by calculating the upper and lower bounds of the scale of the GB discontinuity (which is in a downwards direction) for London and accounting for this in year-on-year comparisons with 2006 figures. ONS estimate that the discontinuity at the GB level is between 150,000 to 350,000 employees in a downwards direction, London's pro-rata share (15.2% of total GB employment) means that the lower and upper bounds of the discontinuity for London are approximately 24,000 to 52,000 in a downwards direction[lii].

ABI/1 data is now compared with other survey data to gain a more complete picture of employment changes in London between 2005 and 2006[liii].

6.2 Other labour market surveys and data

Short-Term Employment Surveys (STES)
STES collects information on the number of employees from a sample of 7,100 businesses in production industries each month and 26,600 businesses in the service and distribution industries each quarter. STES results are benchmarked to ABI/1 data and published as the main part of the Employee Jobs and Workforce Jobs series.

Employee Jobs (EJ) and Workforce Jobs series (WFJ)
Quarterly estimates of employee jobs are derived by applying movements calculated from STES to an annual benchmark derived from the results of the ABI/1. The EJ series is available on NOMIS in seasonally adjusted (SA) and non-seasonally adjusted (NSA) forms down to a regional level.

The total number of workforce jobs is then calculated by adding self-employment jobs (from the Labour Force Survey), those in HM Forces (from the MoD) and Government-supported trainees (from the National Assembly for Wales, Scottish Executive and DWP) to estimates of employee jobs.

Workforce jobs = employee jobs + self-employment jobs + HM Forces + Government supported trainees

ONS recommends WFJ for analysis of year-on-year changes in the number of employee jobs. Ideally, the discontinuity in 2006 ABI/1 data would be removed from the WFJ series. However, given a lack of information to do this, WFJ have informed users that estimates of change across December 2005 to September 2006 are now unreliable.

Business Register and Employment Survey (BRES) (Forthcoming 2009)
BRES will produce annual employment estimates at detailed industrial and geographical levels and will also be used to maintain the IDBR. The introduction of BRES should significantly improve the quality of regional and industrial data and the reliability of small area analysis. The main difference to the past ABI/1 approach is that all data will be collected at the local unit level. In the move to BRES, the 2006 ABI/1 included Business Registers Survey (BRS) local unit data within the results. Detailed regional / industry splits will improve due to BRES methodology; the BRES survey design can then take a bottom-up approach by having the data at the very low detailed level and estimating and aggregating upwards, as opposed to the current top-down approach of the ABI/1 where the reporting unit data is used to estimate the local unit level data.

Claimant count
This is the number of people claiming unemployment related benefits - since October 1996 this has been the number of people claiming Jobseeker's Allowance. The seasonally adjusted claimant count series, which goes back to 1971 for the UK, is estimated on a basis consistent with the current benefits regime, i.e. it has been adjusted for discontinuities in coverage.

Claimant count rate at national or regional level
This is the number of claimants resident in an area as a percentage of the sum of claimants and workforce jobs in the country or region.

6.3 ABI/1 2006 findings and direct comparison with ABI/1 2005 data

The following direct comparisons of ABI/1 data are made simply to act as a baseline for further discussion of the discontinuity; given the discontinuity, direct comparison of 2005 and 2006 data is not recommended for analysis of employment changes between these two years.

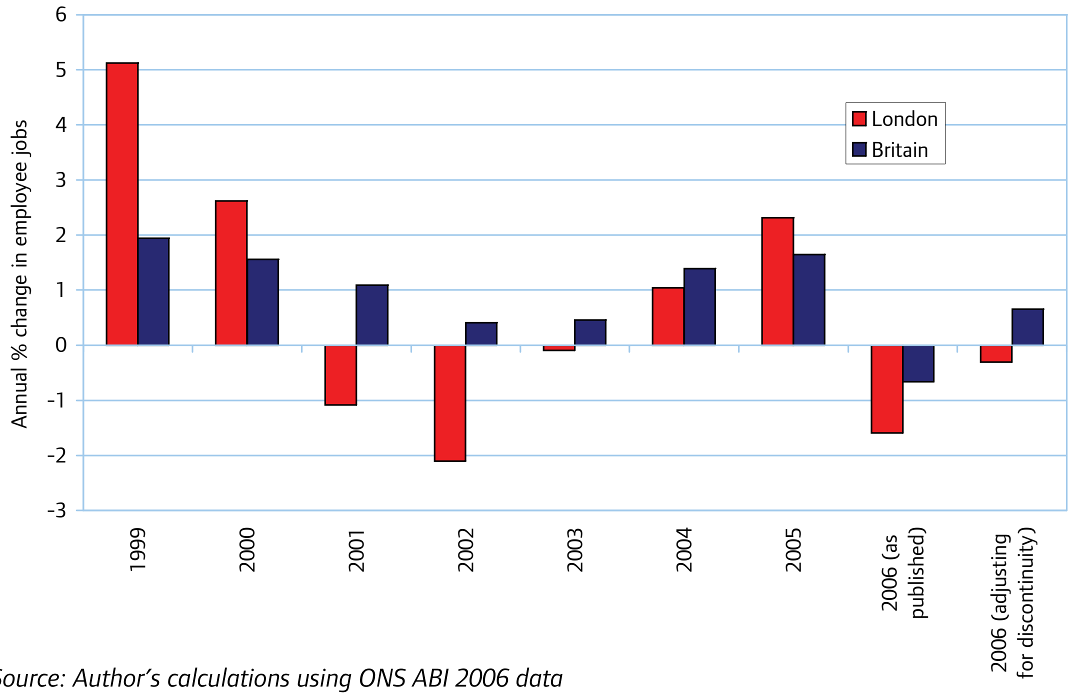
- London's employers registered 3.99 million employee jobs in September 2006 ABI/1. Not accounting for the discontinuity, this represents a fall of 65,000 jobs from 2005 ABI/1. After adjusting for the discontinuity using the upper bound estimate described earlier, this would still represent a fall in employment of 13,000 employees (0.3 per cent) from 2005.
- Not accounting for the discontinuity between 2005 and 2006: Employee jobs in Great Britain (GB) experienced a -0.7 per cent fall (176,000 employees).

- Not accounting for the discontinuity between 2005 and 2006: London experienced the second-highest fall in employee jobs in Britain (after the South East). The North West gained the highest number of jobs (23,000) followed by the East of England.

6.4 The effect of the discontinuity

Comparisons of ABI/1 2006 data with 2005, clearly heavily influenced by the effects of the discontinuity, show that employee job numbers in GB fell by 0.7 per cent. After accounting for the discontinuity using the GB upper bound estimate (350,000 employees) described earlier, GB employee levels rise slightly (0.7 per cent) from 2005 (see Figure 6.1). The following figures compare 2005 and 2006 ABI/1 data after attempting to account for the discontinuity between these years.

Figure 6.1: Employee jobs growth, London and Great Britain (using upper bound adjustment)

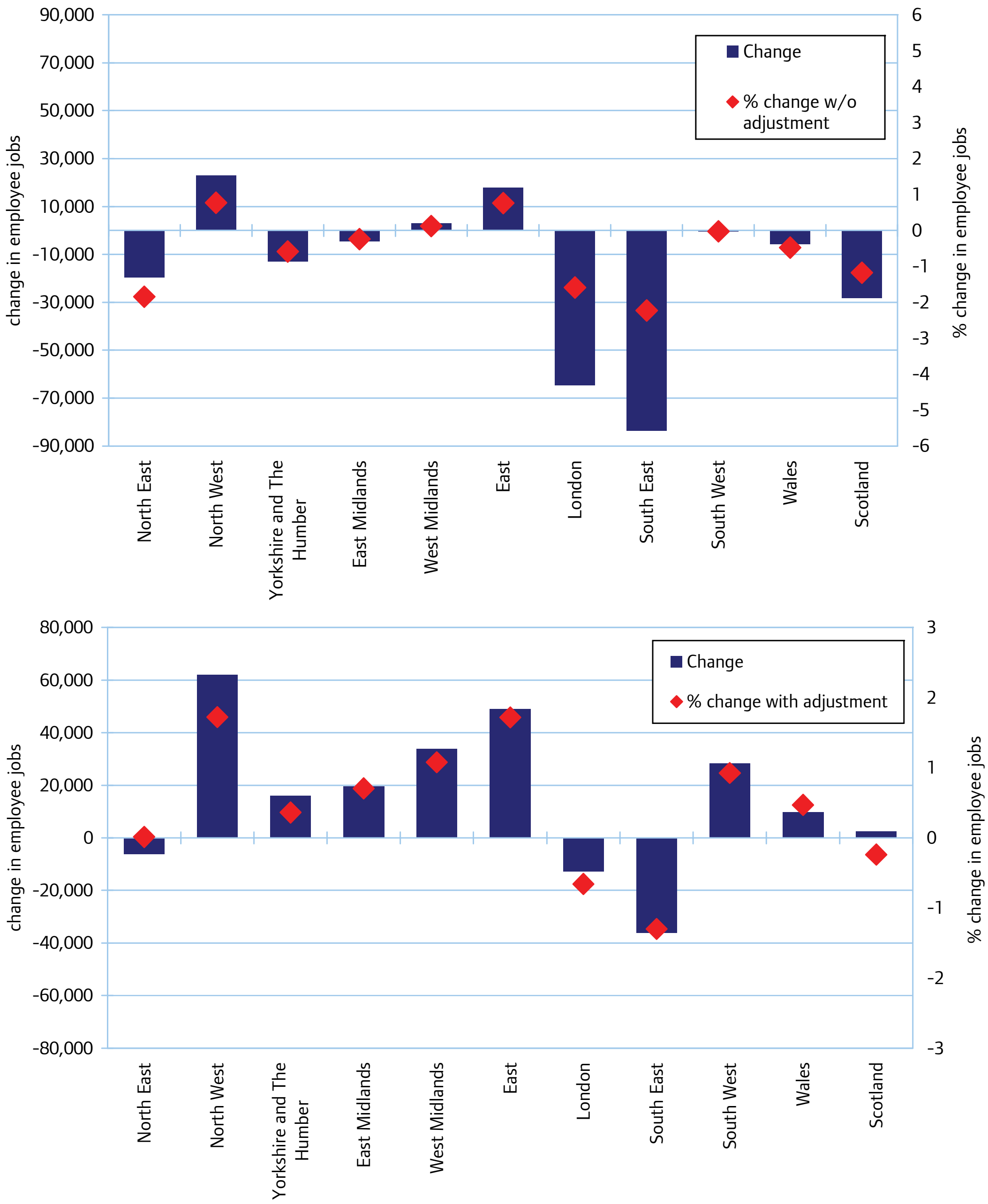


Source: Author's calculations using ONS ABI 2006 data

Keeping in mind comparison of 2006 ABI/1 data with previous years should be treated with caution, both the latest unadjusted and adjusted ABI data for 2006 still purport to show a reversal of strong employment growth in previous years when London outpaced Britain. What is particularly striking is the strength of the supposed slowdown in jobs growth in London compared with GB. In 2005, jobs growth was estimated at above 2 per cent for London up from around 1 per cent in 2004. On the adjusted figures, employment contracts by 0.3 per cent in 2006. If true, this would be a reversal of trend – similar to the reversal seen between 2000 and 2001 when the 'dot-com boom' ended. This is also a much stronger reversal in employment growth than is seen for the adjusted GB figures – where after a couple of years of employment growth around the 1.5 per cent level, employment growth falls to around 0.7 per cent. As will be shown later, the picture for 2006 set out by ABI/1 (even after a pro-rata adjustment) does not seem consistent with other data sources.

As the GB discontinuity is estimated to be in the range of 150,000 to 350,000 employees in a downwards direction, London's pro-rata share (15.2 per cent of total GB employment) means that the range for the London discontinuity is between 24,000 and 52,000 employees[liv]. The upper bound of 52,000 has been used to adjust for the discontinuity when comparing 2005 and 2006 ABI/1 data to produce the year-on-year changes in Figures 6.1 and 6.2.

Figures 6.2a and 6.2b: Regional employee job changes, 2006 (with and without adjustment)



Source: ONS, ABI 2006

After adjusting at the upper bound of the scale of discontinuity for London (i.e. adding 52,000 employees to jobs growth between ABI/1 2005 and 2006), 2006 still represents a fall of 0.3 per cent or a decrease of 13,000 employee jobs since 2005. With or without accounting for the discontinuity, London is supposed to have experienced the second-highest decrease in employee jobs of any region in Britain (after the South East). The North West and East are the regions with the strongest employee job growth.

Upwardly adjusting regional figures has its greatest effect on other regions - published ABI/1 2006 figures showed the majority experienced a fall in employee jobs whereas accounting for the discontinuity results in employee gains for the majority of regions (barring, London, the South East and the North East).

However, the pro-rata adjusted employee figures are likely to still be fairly approximate estimates of employment because they do not account for any region-specific effects of the three discontinuities. That is, a simple pro-rata share of the discontinuity for each region is unlikely to provide an accurate reflection of the true employee situation in the GB regions for 2006 because some regions (in particular London) may have been more affected by the discontinuities than other regions. As noted for possible further investigation, the use of BRS data within ABI/1 results in place of STES data may have for the first time (correctly) apportioned a significant amount of local unit employment of large businesses out of London and the South East.

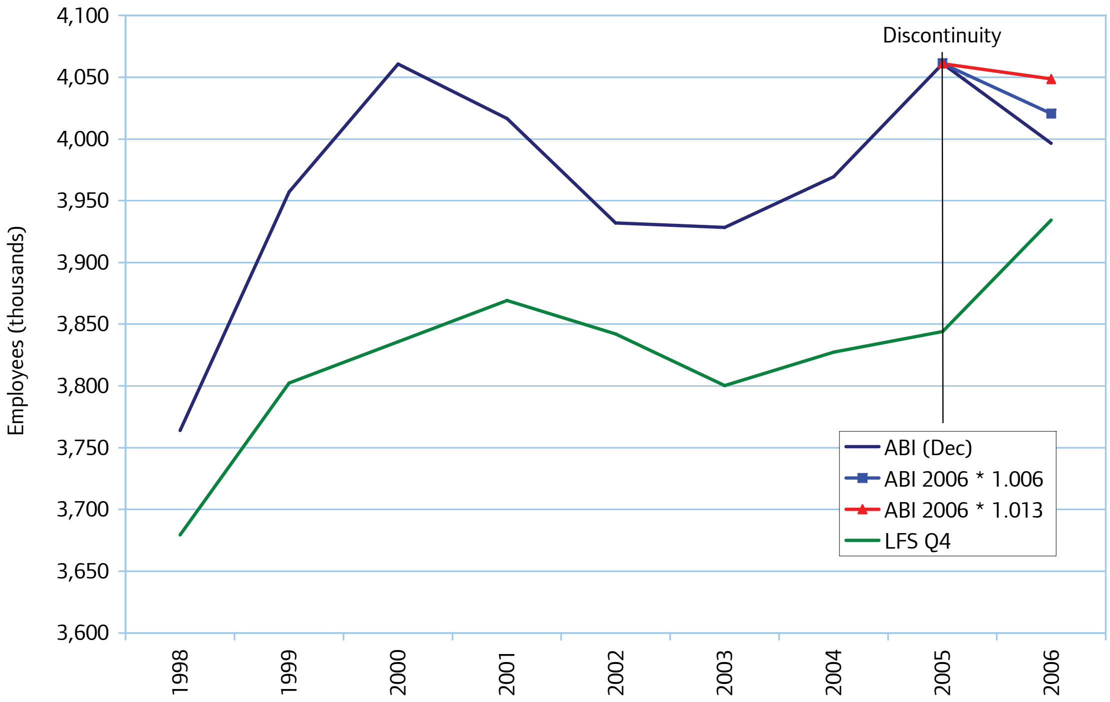
As outlined below, we favour the use of quarterly STES data benchmarked to 2005 ABI/1 data to give an indication of jobs change between 2005 and 2006. To gain a better understanding of the change in employee levels between 2005 and 2006, we have also investigated other survey data.

6.5 Comparing the ABI/1 with other survey data

Comparison with Labour Market data

2006 ABI/1 figures show that London had 3.99 million employee jobs (see figure 6.3). This (unadjusted) decrease in employment of roughly 65,000 (-1.6 per cent) over 2005 would represent the first time since 2003 that ABI/1 levels of employment in London have fallen. Even after accounting for the estimated range of the discontinuity, employment in London is estimated to have fallen, reversing the growth in employment London experienced in 2004 and 2005.

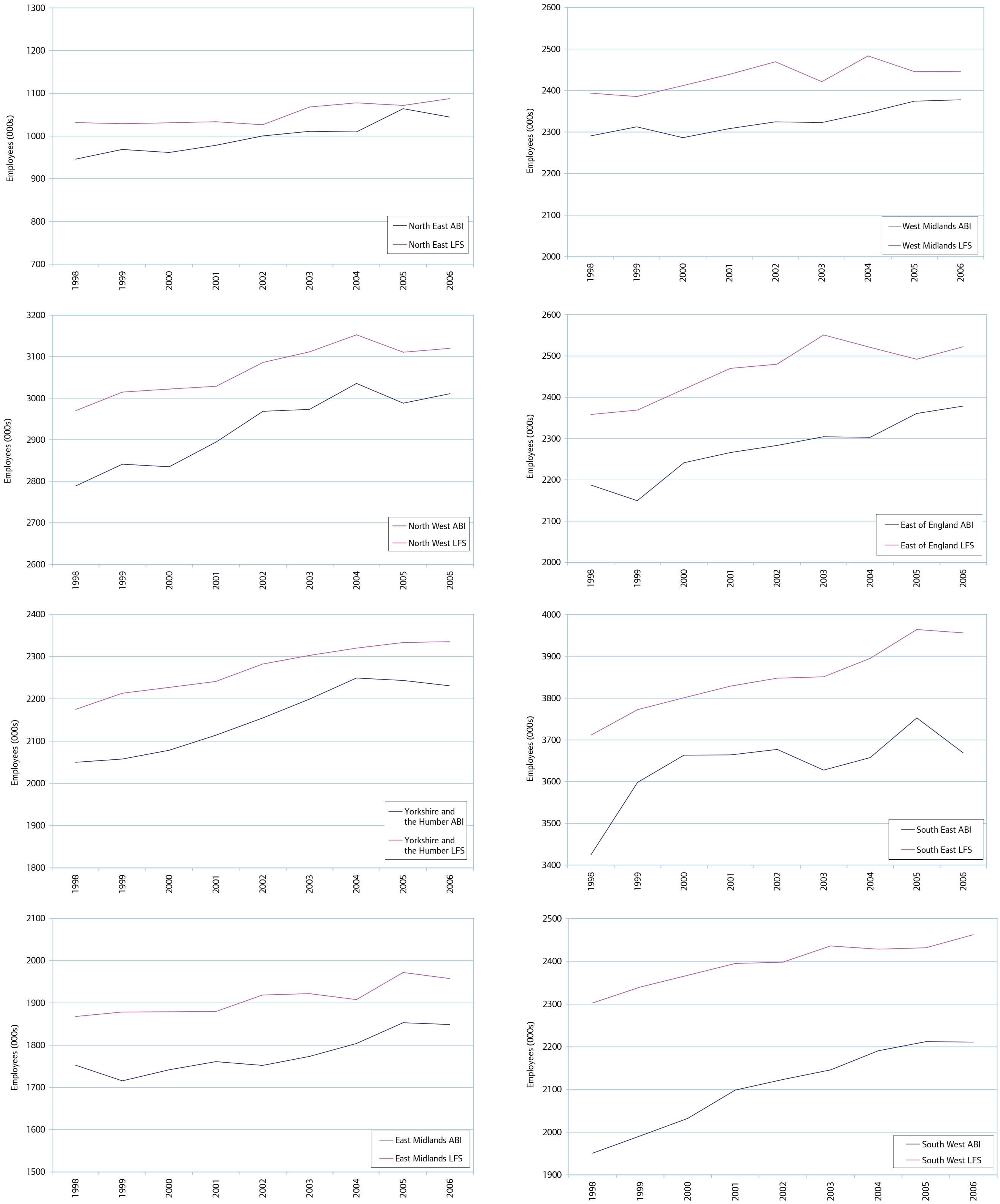
Figure 6.3: Employee jobs in London, 1998 – 2006



Source: ONS ABI employee job data and LFS Q4 microdata analysis of workers in London.

Figure 6.3 shows that ABI/1 data for 2006 significantly contrasts with the LFS for the most recent year. Over the 1997-2006 period, the difference between ABI and LFS (Q4) figures have varied considerably from 217,200 (2004-2005) to 62,200 employees (2005-2006). Since the difference between the LFS and ABI over time has not been constant, the LFS cannot be used as a reliable benchmark for the absolute level of ABI employment changes. However, the LFS can be used as a useful indication of employment trends. Excluding 2000 (where LFS data have been interpolated between 1999 and 2001 – as there are no LFS microdata available for this year) this is the first time over the period since 1998 that the LFS and ABI/1 have moved in different directions. Latest LFS figures show a substantial increase in employees from 2005 to 2006 using year-on-year Q4 data. In contrast, the ABI/1 shows a fall (even after adjusting for the discontinuity). To see whether or not this is the case across each of the English regions, Figure 6.4 similarly compares the LFS to the ABI/1.

Figure 6.4: LFS vs. ABI/1 compared by individual region

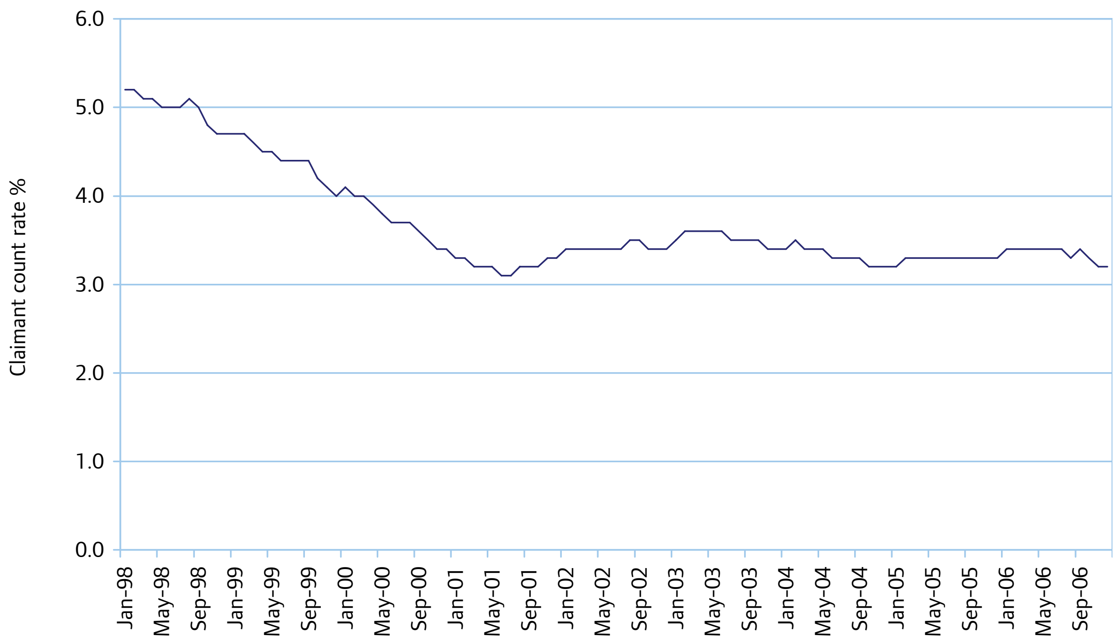


Source: ONS, LFS microdata and ABI/1

In addition to London (as seen in Figure 6.3), there is also an observable break in the long term trend between LFS and ABI/1 data for the South East, although there is some volatility in the difference between ABI/1 and LFS data in the SE. Without further information on how the ABI/1 discontinuity has affected the regions it is difficult to say whether regional variations reflect the true employment picture or are a consequence of changes to methodology. Two areas for further investigation would be whether London and the SE see more seasonal employment or whether using BRS data for the first time within 2006 ABI/1 in place of STES data to more accurately apportion local unit employment of large businesses has (correctly) apportioned a significant amount of local unit employment away from London and the SE.

Claimant count data shows that at the beginning of 2006 the claimant count rate (as a percentage of the sum of claimants and workforce jobs in London) stood at 3.5 per cent but by December 2006 the rate had fallen to 3.3 per cent[lv]. Furthermore, analysis of LFS Q4 microdata shows that employment increased and economic inactivity decreased (using standard ILO definitions) from 2005 to 2006. Again, these data are broadly consistent with a growing labour market and not with the fall in employee jobs shown by comparison of 2005 and 2006 ABI data even after the 52,000 pro-rata adjustment.

Figure 6.5: Claimant count rate, London Jan 1998-Dec 2006

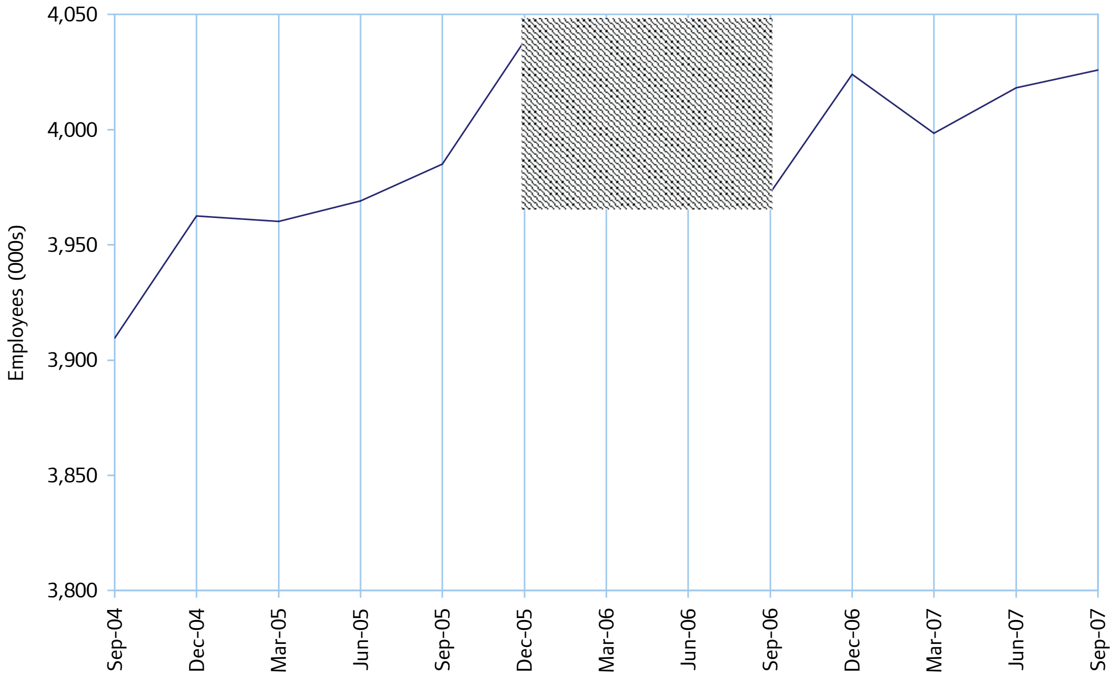


Source: ONS, Claimant Count

Comparisons with the Employee Job series

An indicator of the ABI/1 discontinuity for London is shown by the increase in the non-seasonally adjusted Employee Jobs series between 2006 Q3 and Q4. The Employee Jobs series is derived from quarterly STES data benchmarked to the ABI/1. STES in effect acts as a proxy sample survey for assessing the ABI/1 discontinuity in employment estimates, with 2006 Q4 STES results acting as a proxy for what the 2006 ABI/1 might have returned if it had continued to use December as the reference month.

Figure 6.6: Employee jobs (not seasonally adjusted) in London, 2004 – 2007



Source: ONS, Employee Jobs

Figure 6.6 shows employee jobs after being benchmarked to the ABI 2006 results (so the discontinuity is apparent in Figure 6.6). Figure 6.6 shows that for the past 3 years of available data (2004, 2005 and 2006) there has been a consistent jump in the Employee Jobs series in London between Q3 and Q4 of just over 50,000 employees due to seasonal employment. In 2006, the increase in employee jobs between Q3 and Q4 was 51,000 providing an estimate for the 2006 ABI/1 discontinuity caused by the change in the reference month of around 51,000 jobs in a downwards direction. This magnitude corresponds well with the upper bound of the estimated discontinuity for London mentioned earlier (upper and lower estimates of the discontinuity are 52,000 (1.3 per cent) and 24,000 (0.6 per cent) employees in a downwards direction based on London's pro-rata share of total GB employment).

The shaded area above highlights the period in which data is unreliable (WFJ *Revisions to Workforce Jobs December 2007*[lvi]).

To get a better understanding of what happened during this period, we draw on Employee Job (EJ) figures from before and after quarterly EJ data were benchmarked to September 2006 ABI/1 levels.

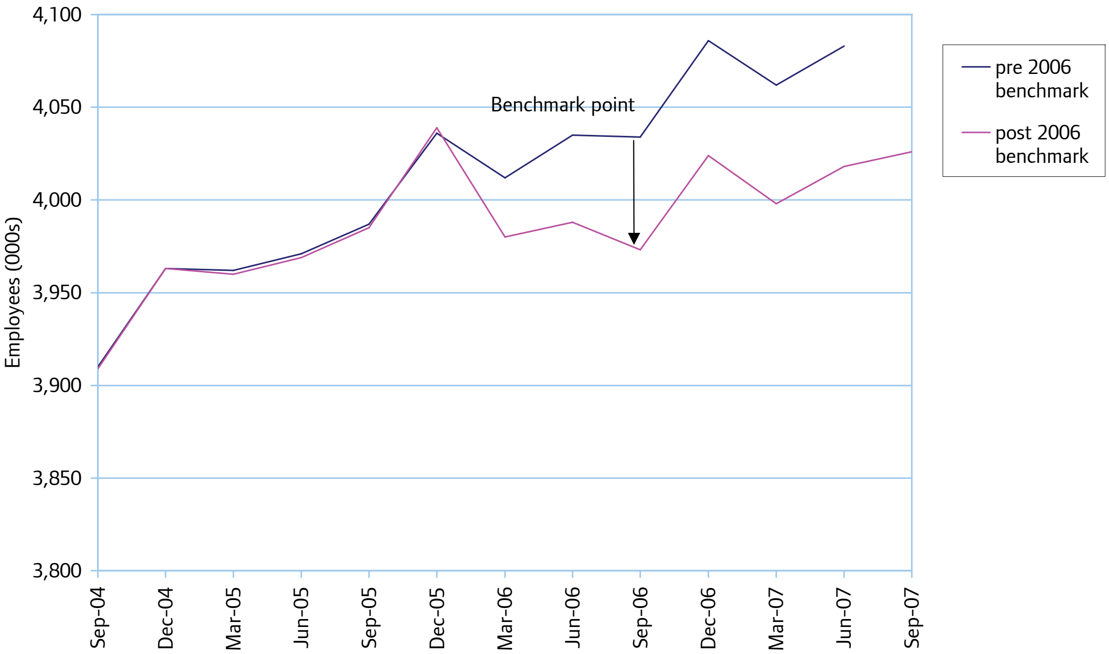
The downward revisions to EJ published in December 2007 are in part due to ABI/1 discontinuity changes affecting the annual benchmarking as well as changes to public sector employee estimates (see *Revisions to Workforce Jobs December 2007*).

There are two main components which caused these revisions (to EJ data) at the GB level:

1. Benchmarking to September 2006 ABI/1 data and revision to the previous benchmark of December 2005 – benchmarking changes are then interpolated back across quarterly EJ estimates to December 2005; both effects contribute to 160,000 downwards revision to the level in December 2006 and 130,000 to the annual change.
2. Revisions of public sector employment levels (this has caused a downward revision of 47,000 to the GB level in December 2006 and a downward revision of 40,000 in the annual change).

As EJ STES estimates at September 2006 are benchmarked to September 2006 ABI/1 data, EJ and the WFJ series avoid the full effects of the ABI/1 discontinuity caused by bringing the reference month forward from December 2006 to September 2006.

Figure 6.7: Employee jobs in London before and after revisions released in December 2007



Source: ONS, Employee Jobs

Data before the benchmarking and revisions exercise (Figure 6.7) show that STES indicates an increase in 2006 year-on-year London employment levels at December 2006 of 50,000 jobs, but this over-estimates job increases as it does not include downward revisions of public sector jobs or account for the revised December 2005 ABI/1 benchmark.

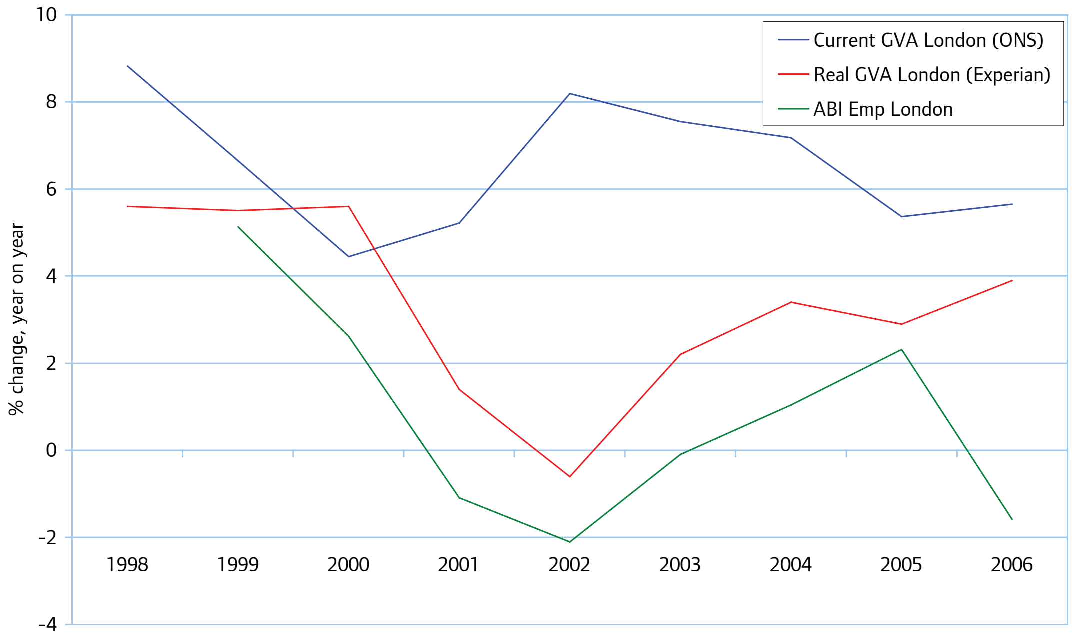
To use EJ STES data more accurately to assess jobs growth in London and inform the ABI/1 discontinuity we examine data that are revised to take account of public sector revisions, and any effect of the revised December 2005 ABI/1 benchmark, but not the latest September 2006 benchmark. Analysis (see section 6.7: Notes) shows that of this 50,000 jobs increase for London, 26,000 are accounted for by public sector revisions and the revised December 2005 benchmark. This provides a more accurate EJ STES derived estimate for 2006 year-on-year London employment at December 2006 for London employment of a 24,000 jobs increase.

Therefore, analysis of STES suggests that London's employment increased by around 24,000 between 2005 and 2006 and we consider this to be a more robust estimate of the actual change in employment between 2005 and 2006 than that illustrated by ABI/1 (even after trying to account for the discontinuities). However, this STES estimate may underestimate the increase in jobs between 2005 and 2006 because STES generally tends to underestimate the change in jobs.

Comparison with other (non-employment) data

To gauge whether or not a fall in employee jobs in London is consistent with broader economic trends, we have also looked at the relationship between employee jobs and GVA from 1998 to 2006. As seen in Figure 6.8, the trend in EBS' annual real GVA growth and the ONS' annual GVA in current prices growth for London are broadly similar for 2006 (relatively strong expansion). However, in contrast to this, the adjusted ABI/1 data suggests a contraction in employment for 2006.

Figure 6.8: Recent trends in London's economy – ABI/1 employee jobs and GVA



Source: ONS, Regional GVA, ABI/1 and EBS Real GVA estimates

As a sharp fall in employment in the context of a strong, growing economy seems unlikely, Figure 6.8 therefore provides more evidence to suggest that employee jobs did not fall between 2005 to 2006.

Summary of London employment estimates over 2005 – 2006

1) ABI/1 figures adjusted for London pro-rata on employment shares to account for the discontinuity:

- The number of London jobs decreases by 13,000. Use of the upper end of the bound of possible adjustments (to account for the discontinuity) appears consistent with data from STES. This estimate is consistent with the treatment of the GB level of discontinuity but does not account for possible region-specific effects which may impact on London quite differently to other regions.

2) LFS analysis of London workers (as opposed to residents):

- The number of London *workers* increased by 90,000 over the same period. This measures workers rather than jobs (and for a range of other well documented reasons ABI/1 employment estimates differ from LFS estimates). It is not comparable to the other estimates, but gives an indication of the general trend of the labour market.

3) EJ / STES data adjusted to include the revisions for Public Sector Employment released in December 2007 but without the effects of benchmarking to ABI 2006:

- An increase of 24,000 jobs in London. This estimate is likely to be conservative as STES tends to underestimate job numbers but is arguably the best estimate currently available until ABI/1 2007 provides an additional year of data and the opportunity for further analysis of the 2006 discontinuity.

6.6 Concluding remarks

The ONS considers the ABI/1 2006 as the best estimate of regional and industrial employment to date. However, the ABI/1 discontinuity has significantly affected time series analysis.

Whilst unadjusted (and pro-rata adjusted) ABI/1 data show a decline in the total number of jobs in London between 2005 and 2006 this is in contrast to data from other sources. Analysis of additional data (both STES data on the number of jobs and LFS data on the number of workers) suggest that London employment continued to rise in 2006. In addition, both the claimant count and the relationship between economic and employment growth would suggest that employment continued to grow in 2006. Therefore, a fall in employment when comparing 2005 and 2006 ABI/1 figures would appear to be inconsistent with the trend of LFS, STES and claimant count data; the STES trend is also shown in the ONS' GVA data for London (as GVA is based on ABI/1 benchmarked to STES).

Analysis of STES suggests that London's employment increased by around 24,000 between 2005 and 2006 and we consider this to be a more robust estimate of the actual change in employment between 2005 and 2006 than the change illustrated by ABI/1 (even after accounting for the discontinuity). However, this STES estimate may underestimate the increase in jobs between 2005 and 2006 because STES tends to underestimate the change in jobs.

Better estimates of employment trends between 2005 and 2006 may be possible once additional ABI/1 2007 data become available (in December 2008). Until then there are still some significant findings to report from ABI/1 2006 when considered alongside other employment indicators.

Whilst the recent ABI/1 changes introduced by the ONS have undoubtedly disrupted employment trend analysis and forecasts in the short term, ONS considers that the changes to the methodology represent an improvement to the detailed industry and regional employment estimates for 2006 data. In the long term, these changes lie on the critical path to better regional information which the ONS believe will be provided by BRES and the development of real regional GVA using the output approach.

Further analysis of how new methods used in 2006 have affected individual regions may provide a clearer picture, but given the number of changes introduced to 2006 ABI/1 it may never be possible to fully unpick each effect. Areas to focus on for further analysis include, seasonal employment differences by region, how use of BRS data may have for the first time (correctly) apportioned more local unit employment out of London and the South East, additional analysis of regional STES Employee Jobs data and analysis of forthcoming ABI/1 2007 data.

6.7: Notes

The following table is derived from London EJ revisions and London Public Sector Employment (PSE) revisions supplied on request by ONS. It isolates changes due to a revised 2005 ABI benchmark and the new 2006 ABI benchmark from changes due to PSE revisions. It enables us to consider how the EJ series would appear if it were revised due to Public Sector Employment revisions only i.e., without the effects of benchmarking to the (discontinuous) 2006 ABI/1. The overall effect of the PSE revisions on year-on-year change from 2005 to 2006 is 26,000 jobs.

Table A1: Elements of London Employee Jobs 2006 revisions in levels (thousands) seasonally adjusted

Period	Revision	Employment (thousands)	
		GB	London
Q4 2005	Total revision to levels	-38	-1
	December 2005 benchmark	-30	0
	Public Sector Employment revisions	-7	-1
Q4 2006	Total revision to levels	-206	-67
	ABI/1 Benchmarking total composed of:	-158	-40
	September 2006 benchmark	(-128)	(-40)
	December 2005 benchmark	(-30)	0
	Public Sector Employment revisions	-47	-27

Overall effect of PSE revisions: 27,000 – 1,000 = 26,000

Note: Figures may not sum due to rounding.

Source: ONS, Workforce jobs revisions and Public Sector Employment Revisions.

Appendix A: Explanation of terms and some sources

Definitions, differences, and revisions

Forecasting organisations use varying definitions of the regional indicators they supply. It is therefore not always possible to assign a completely consistent meaning to the terms used.

Throughout this report, as far as is compatible with the individual definitions applied by the forecasters, 'employment' refers to 'workforce employment' as defined in, *Labour Market Trends. London's Economic Outlook: December 2003* and The GLA's *Workforce Employment Series* provides a more detailed explanation of this term.

Forecasters' definitions are broadly compatible with this but in some cases differences arise from the treatment of small items such as participants in government training schemes or the armed forces. The GLA uses civilian workforce employment throughout.

Output refers to GVA, a term introduced by the 1995 revision of the European System of Accounts (ESA95). Some forecasters still estimate GDP, which differs slightly from GVA. Imputed rental income from the ownership of property is included in some cases but not in others. GLA Economics' *London's Economic Outlook: December 2003* provides a more detailed explanation of this term.

Estimates of nominal regional GVA are available up to 2006 from the ONS. No official estimates of real regional GVA are available because of the difficulties in producing authoritative regional price deflators, although the ONS has produced regional price indexes for the year 2004[lvii]. Most regional forecasters supply their own estimates of London's real GVA. The real London GVA figures used in the GLA Economics' forecast are supplied by EBS.

GVA estimates are less reliable than employment estimates because there is no independent source of information from which to judge the size of total sales by London-based agents. ONS estimates are calculated by the factor incomes method, beginning from wages paid to people with workforce jobs located in London. Profits are imputed on the basis of these earnings estimates from knowledge of national sectors of employment. Most regional forecasters adopt a variant of this technique.

Consumption refers to private consumption, otherwise known as household expenditure; in some cases the expenditure of non-profit organisations is included and in other cases it is not.

Appendix B: Glossary of acronyms

ABI	Annual Business Inquiry
bn	Billion
BRC	British Retail Consortium
CDOs	Collateralized Debt Obligations
CE	Cambridge Econometrics
CEBR	The Centre for Economic and Business Research
CIPS	The Chartered Institute of Purchasing and Supply
CPI	Consumer Price Index
DCLG	Department for Communities and Local Government
EBS	Experian Business Strategies
ECB	European Central Bank
EERI	Effective Exchange Rate Index
EU	European Union
FT	Financial Times
GDP	Gross Domestic Product
GLA	Greater London Authority
GVA	Gross Value Added
HBOS	Halifax Bank of Scotland
HM Treasury	Her Majesty's Treasury
ILO	International Labour Organisation
IMF	International Monetary Fund
IPO	Initial Public Offering
LEO	London's Economic Outlook
LFS	Labour Force Survey
LHS	Left Hand Scale
mn	Million
MPC	Monetary Policy Committee
OE	Oxford Economics
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics
OPEC	Organisation of Petroleum Exporting Countries
PMI	Purchasing Managers' Index
Q2	Second Quarter
RHS	Right Hand Scale
RPIX	Retail Price Index (excluding mortgage interest payments)
RPI	Retail Price Index
TfL	Transport for London

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Footnotes

[i] The forecast is based on an in-house model built by Volterra Consulting Limited.
[ii] RPIX = Retail price index excluding mortgage interest payments. Although not part of the GLA Economics forecast for London, for reader information HM Treasury Consensus Forecast, May 2008 of the RPIX UK inflation rate are reported. Up to December 2003, the Bank of England's symmetrical inflation target was annual RPIX inflation at 2.5 per cent.
[iii] CPI = Consumer Price Index. Although not part of the GLA Economics forecast for London, for reader information HM Treasury Consensus Forecast, May 2008 of the UK CPI inflation rate are reported. Since December 2003 the Bank of England's symmetrical inflation target has been annual CPI inflation at two per cent.
[iv] The Financial Times, 'City bonuses on the rise', 13 February 2008.
[v] Knight Frank, Central London Quarterly, Quarter 4 2007.
[vi] As measured by the Chartered Institute of Purchasing Supply.
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[xxiii] BBC, 'US foreclosures up 57% in January', 26 February 2008.
[xxiv] BBC, 'Fresh gloom for US housing market', 6 March 2008.
[xxv] The Telegraph, 'US job losses put recession in focus', 5 April 2008.
[xxvi] The ability of eligible institutions to borrow money from the central bank, usually at a short term rate and in this case for up to 90 days.
[xxvii] The Economist, 'The Fed: Aggressive easing', 18 March 2008.
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[xlvii] Most forecasters do not yet provide forecasts of household income.
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[xlix] IDBR - a list of UK businesses maintained by National Statistics used for selecting samples for surveys of businesses.
[l] For more information on the discontinuities, see: ONS, 'Discontinuities affecting the 2006 Annual Business Inquiry (ABI/1) employment estimates'.
https://www.nomisweb.co.uk/articles/news/files/ABI%202006%20discontinuities.doc
[li] Allsopp, C, 'Review of Statistics for Economic Policymaking', March 2004
www.hm-treasury.gov.uk/allsopp
[lii] The upper bound figure corresponds well to the scale of the effect that seasonality has on employee jobs figures. The difference between the non-seasonally adjusted Employee jobs series in London is 51,000 between Q3 and Q4 in 2006.
[liii] Differences in employment by sector and by borough between 2005 and 2006 were investigated but comparison of ABI/1 2006 data, clearly heavily influenced by the effects of the discontinuity, with 2005 ABI/1 data does not produce meaningful comparisons.
[liv] Given that analysis of STES data later suggests that the discontinuity is 51,000 in a downwards direction, we use the upper bound of this range.
[lv] To note, although the denominator of claimant count rate includes the effects of the ABI discontinuity within WFJ, the overall effect is not significant enough to change the rate.
[lvi] http://www.statistics.gov.uk/articles/nojournal/Revisions_WFJs_Dec07.pdf
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other publications

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Vietnamese

Nếu bạn muốn có văn bản tài liệu này bằng ngôn ngữ của mình, hãy liên hệ theo số điện thoại hoặc địa chỉ dưới đây.

Greek

Αν θέλετε να αποκτήσετε αντίγραφο του παρόντος εγγράφου στη δική σας γλώσσα, παρακαλείστε να επικοινωνήσετε τηλεφωνικά στον αριθμό αυτό ή ταχυδρομικά στην παρακάτω διεύθυνση.

Turkish

Bu belgenin kendi dilinizde hazırlanmış bir nüshasını edinmek için, lütfen aşağıdaki telefon numarasını arayınız veya adrese başvurunuz.

Punjabi

ਜੇ ਤੁਹਾਨੂੰ ਇਸ ਦਸਤਾਵੇਜ਼ ਦੀ ਕਾਪੀ ਤੁਹਾਡੀ ਆਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਚਾਹੀਦੀ ਹੈ, ਤਾਂ ਹੇਠ ਲਿਖੇ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ ਹੇਠ ਲਿਖੇ ਪਤੇ 'ਤੇ ਰਾਬਤਾ ਕਰੋ:

Hindi

यदि आप इस दस्तावेज की प्रति अपनी भाषा में चाहते हैं, तो कृपया निम्नलिखित नंबर पर फोन करें अथवा नीचे दिये गये पते पर संपर्क करें

Bengali

আপনি যদি আপনার ভাষায় এই দলিলের প্রতিলিপি (কপি) চান, তা হলে নীচের ফোন্ নম্বরে বা ঠিকানায় অনুগ্রহ করে যোগাযোগ করুন।

Urdu

اگر آپ اِس دستاویز کی نقل اپنی زبان میں چاهتے هیں، تو براہ کرم نیچے دئے گئے نمبر پر فون کریں یا دیئے گئے پتے پر رابطہ کریں

Arabic

إذا أردت نسخة من هذه الوثيقة بلغتك، يرجى الاتصال برقم الهاتف أو مراسلة العنوان أدناه

Gujarati

જો તમને આ દસ્તાવેજની નકલ તમારી ભાષામાં જોઈતી હોય તો, કૃપા કરી આપેલ નંબર ઉપર ફોન કરો અથવા નીચેના સરનામે સંપર્ક સાધો.